SYLLABUS

Class – I Years

Subject – Banking and Insurance

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UNIT I

Meaning and Definition of Bank:

A bank is an institution which deals with money and credit. It accepts deposits from the public, makes the funds available to those who need them, and helps in the remittance of money from one place to another. In fact, a modem bank performs such a variety of functions that it is difficult to give a precise and general definition of it. It is because of this reason that different economists give different definitions of the bank.

According to Crowther, a bank "collects money from those who have it to spare or who are saving it out of their incomes, and it lends this money to those who require it."

In the words of Kinley, "A bank is an establishment which makes to individuals such advances of money as may be required and safely made, and to which individuals entrust money when not required by them for use."

According to John Paget, "Nobody can be a banker who does not (i) take deposit accounts, (h) take current accounts, (iii) issue and pay cheques, and (iv) collects cheques-crossed and uncrossed-for its customers,"

Prof. Sayers defines the terms bank and banking distinctly. He defines a bank as "an institution whose debts (bank deposits) are widely accepted in settlement of other people's debts to each other."

Again, according to Sayers, "Ordinary banking business consists cash for bank deposits and bank deposits for cash; transferring bank deposits from one person or corporation to another; giving bank deposits in exchange for bills of exchange, government bonds, the secured promises of businessmen to repay and so forth".

As per Section 5(c) of the Banking Regulation Act, 1949 a "Banking Company" means any company which transacts the business of banking in India.

Explanation: Any company which is engaged in the manufacture of goods or carries on any trade and which accepts the deposits of money from public merely for the purpose of financing its business as such manufacturer or trader shall not be deemed to transact the business of banking within the meaning of this clause."

As per Section 5(b) of the Banking Regulation Act, 1949 , "banking" means the accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise, and withdrawable by cheque, draft, order or otherwise."

In short, the term bank in the modern times refers to an institution having the following features:

i. It deals with money; it accepts deposits and advances loans.
ii. It also deals with credit; it has the ability to create credit, i.e., the ability to expand its liabilities as a multiple of its reserves.
iii. It is commercial institution; it aims at earning profit.
iv. It is a unique financial institution that creates demand deposits which serve as a medium of exchange and, as a result, the banks manage the payment system of the country.

Creation of Money :

Banks accept deposits from the public for the purpose of lending it to those who need money to meet their personal or business needs.

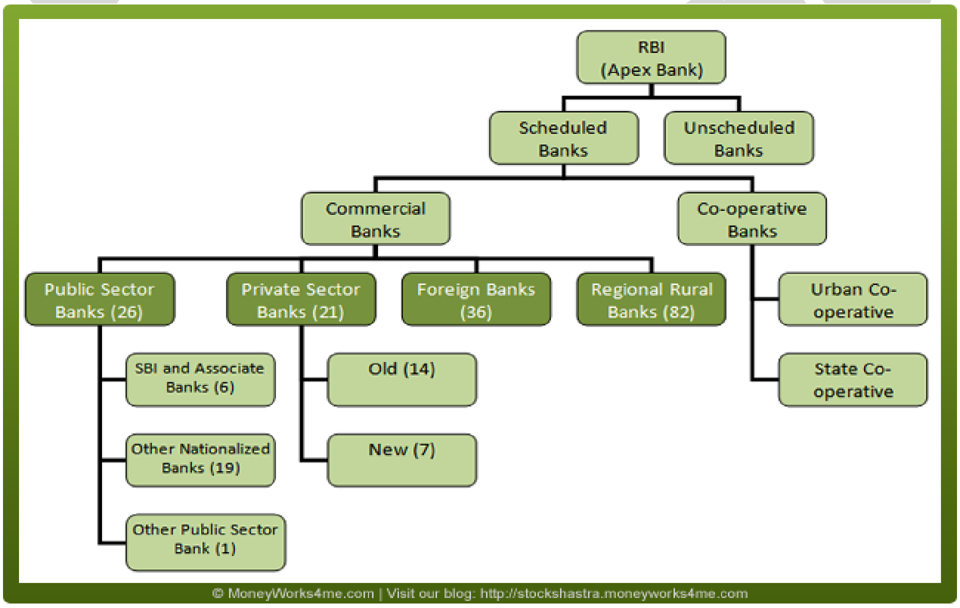
While granting loans to the borrowers, the bank does not handover the entire cash to him but credits the amount of the loan in his bank account. The borrower has a right to issue or draw cheques against it as and when he needs. According to Hartley Withers, "Every loan crates a deposit."

When a loan is granted to a borrower he acquires a right or claim against the bank to withdraw that amount. This right is similar to the right of a customer to withdraw his own deposit from his bank account.

In economics, money creation is the process by which the money supply of a country or a monetary region (such as the Eurozone) is increased. A central bank may introduce new money into the economy (termed 'expansionary monetary policy') by purchasing financial assets or lending money to financial institutions. Commercial bank lending then multiplies this base money through fractional reserve banking, which expands the total of broad money (cash plus demand deposits).

Structure of Commercial Banks In India:

Reserve Bank of India is the Central Bank of our country. It was established on 1st April 1935 under the RBI Act of 1934. It holds the apex position in the banking structure. RBI performs various developmental and promotional functions. As of now 26 public sector banks in India out of which 21 are Nationalised banks and 5 are State Bank of India and its associate banks. There are total 92 commercial banks in India. Public sector banks hold near about 75% of the total bank deposits in India.



Indian Banks are classified into commercial banks and Co-operative banks. Commercial banks comprise: (1) Schedule Commercial Banks (SCBs) and non-scheduled commercial banks. SCBs are further classified into private, public, foreign banks and Regional Rural Banks (RRBs); and (2) Co-operative banks which include urban and rural Co-operative banks.

1. Central Bank or Apex Bank: The Reserve Bank of India

2. Commercial Banks:

(I) Public Sector Banks:

(a) State banks

(b) Nationalized Banks:

(II) Private Sector Banks:

(a)Indian Banks

(b)Foreign Banks

(III)Co-operative Banks:

(a)Central/ District Co- operative Banks

(b) Primary Credit Society

(IV)Regional Rural Banks

(V)National Bank for Agriculture and Rural Development (NABARD)

(VI)Development Bank

Principles of Management In Banks:
Recruitment:
Recruitment is a process to discover the sources of manpower to meet the requirement of the staffing schedule and to employ effective measures for attracting that manpower in adequate numbers to facilitate effective selection of efficient personnel.

Recruiting is an ongoing project for any organization. From the moment an employment application is submitted, recruitment software should be there to rank it, match the applicant to job if necessary and place the information in a database that can share the information across different software applications or applicant tracking tasks, including scheduling interviews and sending out letters for every stage of the recruitment process.

Definitions:
It is the process of finding and attracting capable applicants of employment. The process begins when new recruits are sought and ends when their applications are submitted. The result is pool of applicant from which new employees are selected.

- K. ASWATHAPPA.

Significance:
The general purpose of recruitment is to provide a pool of potentially qualified job candidates. Specifically, the purpose is to:

1. Determine the present and future requirements of the organization in conjunction with its personal planning and job-analysis activities.
2. Increase the pool of job candidates at minimum cost.
3. Help to increase the success rate of the selection process by reducing the number of visibly under qualified or over qualified job applicants.
4. Help to reduce the probability that job applicants, once recruited and selected, will leave the organization only after a short period of time.
5. Meet the organization's legal and social obligations regarding the composition of its workforce.
6. Begin identifying and preparing potential job applicants who will be appropriate candidates.
7. Increase organizational and individual effectiveness in the short term and long term.
8. Evaluate the effectiveness of various recruiting techniques and sources for all types of job applicants.

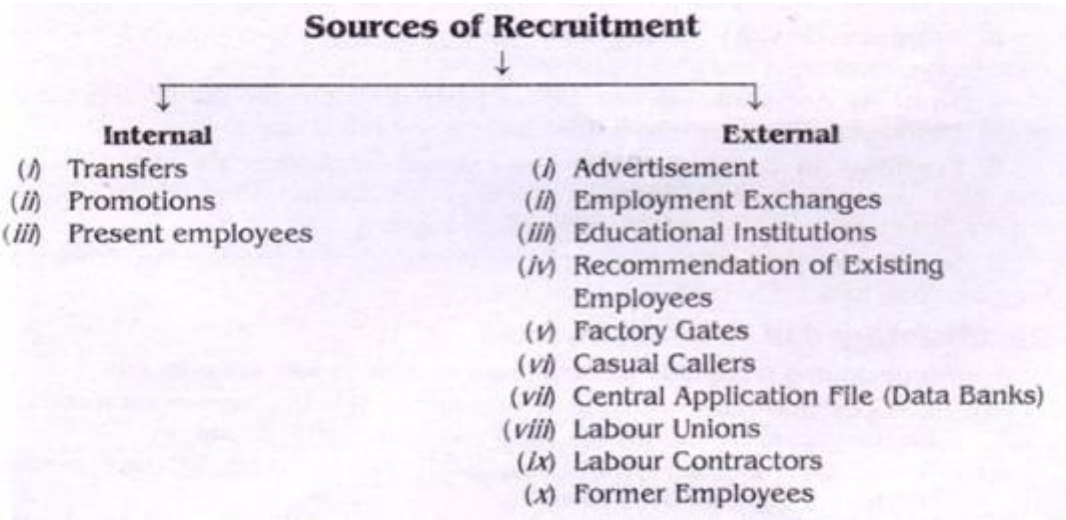
Objectives of recruitment:

1. To attract people with multi dimensional skills and experiences that suits the present and future organizational strategies.
2. To induct the outsiders with a new perspective to lead the company
3. To infuse fresh blood at all levels of the organization.
4. To develop an organizational culture that attracts competent people to the company.
5. To devise methodologies for assessing psychological traits.
6. To seek out non-conventional grounds of talent.
7. To design entry pay that competes on quality but not on quantum.
8. To anticipate and find people for positions that does not exist.

Recruitment policy:
The recruitment policy of any organization is derived from the personnel policy of the same organization. It includes:

- Government policies
- Personnel policies of other competing organizations
- Organization's personnel policies
- Recruitment sources
- Recruitment needs
- Recruitment cost
- Selection criteria and preference etc

Sources of recruitment:
The sources of recruitment are broadly divided into internal and external sources.



Internal Sources:

- Present permanent employees
- Present temporary or casual employees
- Retrenched or retired employees
- Dependents of deceased, disabled, present and retired employees.

Why do organizations prefer internal sources?

- It can be used as a technique for motivation.
- Morale of the employees can be improved.
- Suitability of the internal candidates can be judged better than the external candidates as "known devils are better than unknown angels".
- Cost of selection can be minimized.
- Trade unions can be satisfied.
- Stability of the employees can be ensured.

External Sources:

a) **Campus recruitment**:

Different types of organizations like industries, business firms, service organizations ,social organizations can get inexperienced candidates of different types from various educational institutions like colleges and universities. Many companies realize that campus recruitment is one of the best techniques for recruiting new blood. These include

- Short listing the institutes based on the quality of the students intake, faculty facilities and past track record.
- Offering the smart pay rather than high pay package.
- Presenting a clear image of the company and the corporate culture.
- Getting in early. Make an early bird offer.
- Include young line managers and business school and engineering school alumni in the recruiting team.

b) **Private employee agencies**:

Consultants in India perform the recruitment functions on behalf of a client company by charging fee. Line managers are relieved from recruitment functions so that they can concentrate on operational activities. Hence these agencies work effectively in the recruitment of executives.

c) **Public employee exchanges**:

The government set up public employment exchanges in the country to provide information about vacancies to the candidates and to help the organization in finding out suitable candidates.

d) **Professional Organizations:**
These organizations maintain complete bio-data of their members and provide the same to various organizations on requisition. They also act as an exchange between their members and recruiting firms in exchanging information, clarifying doubts etc.

e) **Data banks**:
The management can collect the bio-data of the candidates from different sources like employee exchange, educational training institutes, candidates etc and feed them in the computer. it will become another source and the company can get the particulars as and when it needs to recruit.

f) **Casual applicants**:
Depending upon the image of the organization, its prompt response, participation of the organization in the local activities, level of unemployment. Candidates apply casually for jobs through mail or handover the applications in the personnel department.

g) **Similar organizations**:
Generally experienced candidates are available in organizations producing similar products or are engaged in similar business. The management can get most suitable candidates from this source.

h) **Trade unions**:
Generally unemployed or underemployed persons or employees seeking change in employment put a word to the trade union leaders with a view to getting suitable employment due to latter's intimacy with management. In view of this fact and in order to satisfy the trade union leaders, management enquires trade unions for suitable candidates.

Reasons for external sources:

- Candidates can be selected without any pre-conceived notion or reservations.
- HR mix can be balanced with different background, experience and skill etc.
- Latest knowledge skill, innovative or creative talent can also be flowed in to the organization.
- Long run benefit to the organization in the sense that qualitative human resources can be brought.

Recruitment Techniques:
These are the techniques by which the management contracts prospective employees or provides necessary information or exchanges ideas or stimulates them to apply for jobs. Management uses different types of techniques to stimulate internal and external candidates. Techniques useful to stimulate internal candidates are promotion and transfer.

Modern sources and techniques of recruitment:

A number of modern recruitment sources and techniques are being used by the corporate sector in addition to traditional sources and techniques. These techniques include.
a) Walk-in:
The busy organizations and the rapid changing companies do not find time to perform various functions of recruitment. Therefore, they advise the potential candidates to attend for an interview directly and without a prior application on a specified date, time and at a specified place.
b) Consult-in:
The busy and dynamic companies encourage the potential job seekers to approach them personally and consult them regarding the jobs; the companies select the suitable candidates from among such candidates through the selection process.
c) Head Hunting (search consultants):

In this the professional organizations search for the most suitable candidates and advise the company regarding the filling up of the positions.

d) Body Shopping:

The prospective employees contact these organizations to recruit the candidates. These professional and training institutions are called body shoppers and these activities are known as body shopping.

e) Business Alliances:

Business alliances like acquisition, mergers and takeovers help in getting human resources. In addition, the companies do also have alliances in sharing their human resources on ad-hoc basis.

f) Tele-recruitment:

Organizations advertise the job vacancies through the World Wide Web (internet). The job seekers send their applications through e-mail or internet.

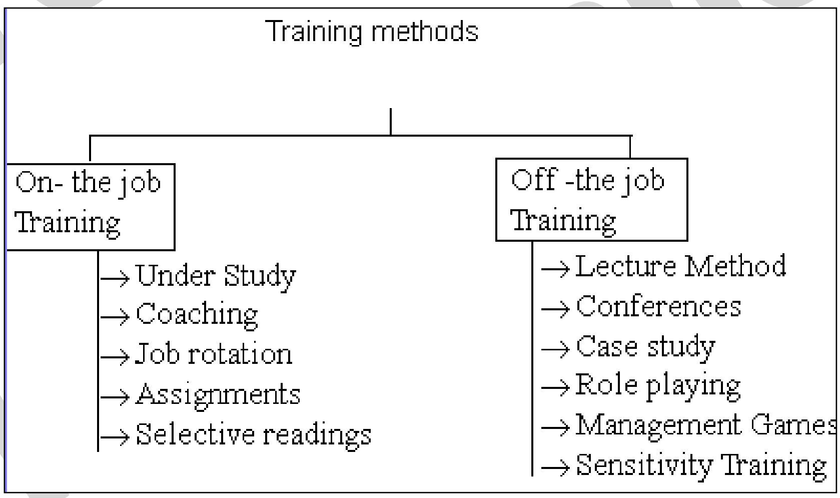
TRAINING:

Training is the acquisition of knowledge, skills, and competencies as a result of the teaching of vocational or practical skills and knowledge that relate to specific useful competencies. Training has specific goals of improving one's capability, capacity, productivity and performance.

Importance of Training:

1. Increased executive management skills.
2. Development in each executive of a broad background and appreciation of the company's overall operations and objectives.
3. Greater delegation of authority because executives down the like are better qualified and better able to assure increased responsibilities.
4. Creation of a reserve of qualified personnel to replace present incumanets and staff new positions.
5. Improved selection for promotion. .
6. Minimum delay in staffing new positions and minimum a distribution of operations during replacement in incumbents.
7. Provision for the best combination of youth, vigour and experience in top management and increased span of productive life in high level position.
8. Improved executive morale.
9. Attractive t6 the company of ambitious men who wish to move ahead as rapidly as their abilities permit.
10. Increased effectiveness and reduced costs, resulting in greater assurance of continued profitability.

Methods of Training:



A. On- the job training Methods: This type of training is also known as job instruction training. Under on - the job training method, the individual is placed on a regular job and taught the skills necessary to perform that job. The trainee learns under the supervision and guidance of a qualified worker or instructor.

On-the - job training methods include the following:
(i) Under Study :This method makes the trainee an assistant to the current job holder. The trainee learns by experience, observation and imitation. It is a kind of mentoring that to help the employee to learn the skills of superior position.

(ii) Coaching : This method involves training by a superior about the knowledge and skills of a job to the junior or subordinate. The superior points out the mistakes committed by the trainee and make suggestions to improve upon.

(iii) Job rotation : This method involves movement of employees to different types of jobs to gain knowledge and functioning of various jobs within the organisation. Banks and insurance companies follow this approach. This method is also known as position rotation or cross training

(iv) Committee Assignment : In this method a committee consisting of a group of emplyees are given a problem and invited solutions. The employees solve the problem and submit the solution. The object of this method is to develop a team work among the employees.

(v) Selective readings: Selective reading may include professional journals and books. Some business organisations maintain libraries for their executives. This is a good method for assimilating knowledge.

B) Of -the job training Method: In off- the -job training, a trainee has to leave his place of working and devote his entire time for training purpose. During this period, the trainee does not contribute anything to the organization. These methods can be followed either in the organization itself or the trainee may be sent away for training courses organized by specialized institutions.

In our country, there are many organizations which have their own training institutes.
Prominent among them in the private sector are TISCO, Larsen & Tubro, ITC, Hindustan Unilever Ltd etc. And Steel Authority of India Ltd (SAIL), State Trading Corporation (STC), Life Insurence corporation, Coal India etc. in the public sector. Besides, there are special training institutes like Administrative Staff College of India, National Productivity Council, All India Management Association, India Institute of Management etc.

Various methods of off-the job training are as follows:
(i) Lecture Method : Special courses and lectures are knowledge based training methods. These courses are organised for a short period. Lectures are supplemented by demonstrations. It also known as class room training.

(ii) Conferences: In order to overcome the limitations of lecture method many organisations have adopted guided-discussion type of conferences in their training programmes. In this method, the participants pool their ideas and experiences and draw conclusions.

(iii) Case Study: Case Study method of training has been developed by Harvard Business School of USA. Cases are widely used in a variety of programmes. This method increases the trainees power of observation. Case studies are generally used for teaching law, marketing, personnel management etc.

(iv) Role Playing: This method of training is used for improving human relations and development of leadership qualities. Role playing technique is used in group where various individuals are given roles of different managers. Dialogue spontaneously grows out of the situation. This method helps the trainee to develop insight into his behaviour and deal with others accordingly.

(v) Management Games: Management games are used to stimulate the thinking of people to run an organisation or its department. A game involves the participation of two or more teams depending on the situation. All the teams have to make decisions regarding the operation of their companies in the given situation. Strength and weakness of decisions are analysed in the light of the results.

(vi) Sensitivity Training: Sensitivity training was first used by National Training Laboratories at Bethel, USA. The training group called itself as T- group. Therefore, it is also called as T-Group training. It is a laboratory training method. The trainees can develop tolerance for others views, become less prejudiced, develop understanding for group process and listening skills.

After imparting training to the employees it becomes necessary to evaluate the training programme because organizations spend a sizeable amount on it. It is, therefore, necessary to examine what value is added to the performance by the training so that in future such training programmes may be arranged or abandoned if they fail to pay some benefit.

The effectiveness of the training Programme can by judged on the basis of the following criteria:
(a) Need: After training, the performance is evaluated .If there is positive demonstration from the workers the need is fulfilled. It is to ascertain whether the training has helped in achieving the results
(b) Change in behavior: The training should bring about change in the behavior of the employee as regards his performance of job. He should use the knowledge acquired by him during training for job performance.
(c) Value addition: Value addition is another criterion for assessment of training. It can be visualized through overall performance, change in trainees' personality, socialization, development etc.

PROMOTION:
A **promotion** is the advancement of an employee's rank or position in an organizational hierarchy system. Promotion may be an employee's reward for good performance, i.e., positive appraisal. Before a company promotes an employee to a particular position it ensures that the person is able to handle the added responsibilities by screening the employee with interviews and tests and giving them training or on-the-job experience. A promotion can involve advancement in terms of designation, salary and benefits, and in some organizations the type of job activities may change a great deal. The opposite of a promotion is a demotion.

Advantages of Promotion:

i. It is an important source of internal recruitment.
ii. It motivates employees.
iii. It increases job satisfaction.
iv. It increases morale.
v. It increases loyalty.
vi. It promotes self development of employees.

vii. Reduced training cost.
viii. Better industrial relations.
ix. No induction delay.

Disadvantages of Promotion:

i. Lack of new blood.
ii. Breeds Corruption
iii. Lack of capable or suitable employees.
iv. Not suitable for posts requiring innovative thinking.

Bases of Promotion:

Promotion is given on the basis of seniority or merit or a combination of both. Let us discuss each one as a basis of promotion.

Seniority as a basis: It implies relative length of service in the same organization. The advantages of this are: relatively easy to measure, simple to understand and operate, reduces labour turnover and provides sense of satisfaction to senior employees. It has also certain disadvantages: beyond a certain age a person may not learn, performance and potential of an employee is not recognized, it kills ambition and zeal to improve performance.

Merit as a basis: Merit implies the knowledge, skills and performance record of an employee. The advantages are: motivates competent employees to work hard, helps to maintain efficiency by recognizing talent and performance. It also suffers from certain disadvantages like: difficulty in judging merit, merit indicates past achievement, may not denote future potential and old employees feel insecure.

Seniority-cum-Merit as basis: As both seniority and merit as basis suffer from certain limitations, therefore, a sound promotion policy should be based on a combination of both seniority and merit. A proper balance between the two can be maintained by different ways: minimum length of service may be prescribed, relative weightage may be assigned to seniority and merit and employees with a minimum performance record and qualifications are treated eligible for promotion, seniority is used to choose from the eligible candidates.

Merit Vs Seniority

MERIT	SENIORITY
Advantages:	
Motivates Employees	It is objective
Adds to job satisfaction.	Simple
Increases loyalty	Favoured by Union
	Increases Loyalty
	Reduces Turnover
Disadvantages	
It is subjective	Promotes Inefficiency
Complicated	Reduces motivation
Scope for Favoritism	Kills initiative and Innovative Thinking
Opposition by Union	Lowers morale of employees
Promotes Industrial Unrest	

CONTROL OF STAFF:

The setting up of a good control system should be guided by certain important principles.

1. Principle of Reflection of Plans:
The more clear and complete the plans of the organisation and the more controls are designed to reflect these plans, the more effectively will controls serve its needs.

2. Principle of Prevention:
The truth of the saying 'Prevention is better than cure' is well-established. In control more attention should be directed to prevention of shortfalls than, remedying them after they occur. Peed forward control is very helpful in this respect.

3. Principle of Responsibility:
Responsibility for control particular measurement of deviations taking corrective action should be given to specific individuals at each stage of the operation.

4. Exception Principle:
The managers should concern themselves with exceptional cases i.e., those where the deviations from standards are very significant. Deviations of a minor mature may be left to subordinates for necessary action.

5. Principle of Critical Points:
All operations have got' certain vulnerable or critical points. It is these which cause most of the troubles - give rise to major deviations. The managers should pay more attention to the guarding of these points.

6. Principle of Pyramid:
Feedback data should first be communicated to the bottom of the pyramid i.e., those supervisors and even operating staff who is at the lowest levels. This will give the employees opportunity to control their own situations, apart from quickening remedial action.

The important provisions:

i. Punctuality
ii. Leave Rules
iii. Trade Union Activities

SALIENT FEATURES OF INDIAN BANKING SYSTEM

1. Establishment **:** Most of the commercial banks in India have been registered as joint stock companies under the Companies Act, 1956. Reserve Bank was established under the Reserve Bank of India Act, 1934. The State Bank of India and its subsidiaries were established under their respective statutes. Cooperative banks were established under the Central or State Co-operative Acts. Nationalised banks have been re-established under the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 Foreign banks operating in India have been established under the respective laws of the country of their origin.
2. Ownership : Ownership of these banks differ depending upon how these have been established. Commercial banks are owned by the public. State Banks and its subsidiaries as well as the major commercial banks are owned by the Government. Co-operative banks are owned by respective co-operative societies.
3. Capital Rquirements : Minimum paid up capital of each schedule bank shall not be less than 5 lacs. A nationalised bank must have authorised capital of 1,500 crore which can be increased upto 3,000 crore. A new private sector bank must have a minimum paid up capital of crore.
4. Capital Adequacy Norms : An Indian bank having foreign branches and a foreign bank operating in India must have capital adequacy norms of 8% (the proportion of its capital and reserve in relation to risk weight: asset).
Other banks have capital adequacy norms of 4%.
5. Mixed Banking : Commercial banks in India are practising mixed banking. Originally these banks

were lending for short-term requirements. Recently, the banks have also started term lending.
6. Increased Credit to Private Sector : In accordance with the recommendations of the Narsimham Committee Report banks have increased credit to the priority sector viz., agriculture, small scale industry and export etc.
7. Control over the banks : Reserve Bank of India is empowered to regulate and control the banking sector. Banks have to comply with the provisions of the Reserve Bank of India Act, 1934 and the Banking Regulation Act, 1949 and the rules made thereunder.
8. Maintenance of Cash Reserve Ratio (CRR) : Every bank is under an obligation to maintain a cash reserve ratio of 5% of its demand and time Liabilities. It can be raised upto 20%.
9. Maintenance of Statutory Liquidity Ratio (SLR) : Likewise every bank -Las to maintain SLR equal to 25% of its demand and time liabilities. It can raised upto 40%.
10. Reserve Bank's Monopoly of Note Issue : Reserve Bank of India has been given the monopoly of issuing currency notes of Rs. 2 denomination and above. The Central Government has the monopoly of issuing notes of Rs. 1.
11. Uniform Accounting Policy : Banks are under an obligation to follow uniform accounting policy. It relates to income recognition, provisioning for k an losses and classification and valuation of assets.
12. Technology Changes : Technology changes are taking place very rapidly. Banks have fully computerised their branches. Most of the major public sector banks and new private sector banks have introduced Core Banking Service (CBS). This has enabled a bank's customer to avail banking -ices 'any time anywhere'. A customer in Delhi can operate his account any other CBS branch anywhere in India. Shift to payment system from o cashless (Debit Cards) and mobile banking.
13. Internet Banking : It is a corollary of the above feature. Internet king means transacting Banking business on-line with the help of internet. This helps in facilitating banking transactions on-line, banking and Automatic Teller Machine (A.T.M.) operations throughout country 24 x 7.
14. Branch Banking : Indian banking system is dominated by branch banking system due to the huge size, topography and economic system of country.
15. Diversification of Banking Operations : Gone are the days when were doing business of deposit acceptance and money lending. Now are embarking upon number of new businesses. However, banks can diversify their business only with the prior approval of the Reserve Bank h is subject to certain conditions being fulfilled.

Different types of bank categorized by functions, ownership and domicile:
Banks can be classified into various types on the basis of their functions, ownership, domicile, etc. The following are the various types of banks:

1. Commercial Banks:

The banks, which perform all kinds of banking business and generally finance trade and commerce, are called commercial banks. Since their deposits are for a short period, these banks normally advance short-term loans to the businessmen and traders and avoid medium-term and long-term lending.

However, recently, the commercial banks have also extended their areas of operation to medium-term and long-term finance. Majority of the commercial banks are in the public sector. However, there are certain private sector banks operating as joint stock companies. Hence, the commercial banks are also called joint stock banks.

2. Industrial Banks:

Industrial banks, also known as investment banks, mainly meet the medium-term and long-term financial needs of the industries. Such long-term needs cannot be met by the commercial banks, which generally deal with short-term lending.

The main functions of the industrial banks are:
(a) They accept long-term deposits.
(b) They grant long-term loans to the industrialists to enable them to purchase land, construct factory building, purchase heavy machinery, etc.
(c) They help selling or even underwrite the debentures and shares of industrial firms,
(d) They can also provide information regarding the general economic position of the economy. In India, industrial hanks, like Industrial Development Bank of India, Industrial Finance Corporation of India, Slate Finance Corporations, are playing significant role in the industrial development of the country.

3. Agricultural Banks:

Agricultural credit needs are different from those of industry and trade. Industrial and commercial banks normally do not deal with agricultural finance. The agriculturists require:

(a) short-term credit to buy seeds, fertilizers and other inputs, and
(b) long-term credit to purchase land, to make permanent improvements on land, to purchase agricultural machinery and equipment, etc. In India, agricultural finance is generally provided by co-operative institutions. Agricultural co-operatives provide short-term loans and Land Development Banks provide the long-term credit to the agriculturists.

4. Exchange Banks:

Exchange banks deal in foreign exchange and specialise in financing foreign trade. They facilitate international payments through the sale, purchase of bills of exchange, and thus play an important role in promoting foreign trade.

5. Saving Banks:

The main purpose of saving banks is to promote saving habits among the general public and mobilise their small savings. In India, postal saving banks do this job. They open accounts and issue postal cash certificates.

6. Central Bank:

Central bank is the apex institution, which controls, regulates and supervises the monetary and credit system of the country. Important functions of the central bank are:
(a) It has the monopoly of note issue;
(b) It acts as the banker, agent and financial adviser to the state;
(c) It is the custodian of member banks reserves;
(d) It is the custodian of nation's reserves of international currency;
(e) It serves as the lender of the last resort;
(f) It functions as the bank of central clearance, settlement and transfer; and
(g) It acts as the controller of credit. Besides these functions, India's central bank, i.e., the Reserve Bank of India, also performs many developmental functions to promote economic development in the country.

7. Classification on the Basis of Ownership:

On the basis of ownership, banks can be classified into three categories:

(a) Public Sector Banks:

These arc owned and controlled by the government. In India, the nationalized banks and the regional rural banks come under these categories,

(b) Private Sector Banks:

These banks are owned by the private individuals or corporations and not by the government or co-operative societies,

(c) Cooperative Banks:

Cooperative banks are operated on the cooperative lines. In India, cooperative credit institutions are organised under the cooperative societies law and play an important role in meeting financial needs in the rural areas.

8. Classification on the Basis of Domicile:

On the basis of domicile, the banks are divided into two categories:

(a) Domestic Banks:

These are registered and incorporated within the country,

(b) Foreign Banks:

These are foreign in origin and have their head offices in the country of origin.

9. Scheduled and Non-Scheduled Banks:

In India, banks have been broadly classified into scheduled and non-scheduled banks. A Scheduled Bank is that which has been included in the Second Schedule of the Reserve Bank of India Act, 1934 and fulfills the three conditions

(a) it has paid-up capital and reserves of at least Rs. 5 lakhs. It ensures the Reserve Bank that its operations are not detrimental to the interest of the depositors;

(b) It is a corporation or a cooperative society and not a partnership or a single owner firm. The banks which are not included in the Second Schedule of the Reserve Bank of India Act are non-scheduled banks.

RESERVE BANK OF INDIA:

The **Reserve Bank of India** (**RBI**) is India's central banking institution, which controls the monetary policy of the Indian rupee. It was established on 1 April 1935 during the British Raj in accordance with the provisions of the Reserve Bank of India Act, 1934. The share capital was divided into shares of 100 each fully paid, which was entirely owned by private shareholders in the beginning. Following India's independence in 1947, the RBI was nationalized in the year 1949.

The RBI plays an important part in the development strategy of the Government of India. It is a member bank of the Asian Clearing Union. The general superintendence and direction of the RBI is entrusted with the 21-member- Central Board of Directors—the Governor, four Deputy Governors, two Finance Ministry representative, ten government-nominated directors to represent important elements from India's economy, and four directors to represent local boards headquartered at Mumbai, Kolkata, Chennai and New Delhi. Each of these local boards consists of five members who represent regional interests, as well as the interests of co-operative and indigenous banks.

The bank is also active in promoting financial inclusion policy and is a leading member of the Alliance for Financial Inclusion (AFI).

Powers/ Functions of RBI:

The Reserve Bank of India performs various traditional central banking functions as well as undertakes different promotional and developmental measures to meet the dynamic requirements of the country. The broad objectives of the Reserve Bank are:

a) Regulating the issue of currency in India;
b) keeping the foreign exchange reserves of the country;
c) establishing the monetary stability in the country; and
d) Developing the financial structure of the country on sound lines consistent with the national socio-economic objectives and policies.

Main functions of the Reserve Bank are described below:

1. Note Issue:

The Reserve Bank has the monopoly of note issue in the country. It has the sole right to issue currency notes of all denominations except one-rupee notes. One-rupee notes are issued by the Ministry of Finance of the Government of India. The Reserve Bank acts as the only source of legal tender because even the one-rupee notes are circulated through it. The Reserve Bank has a separate Issue Department, which is entrusted with the job of issuing currency notes. The Reserve Bank has adopted minimum reserve system of note issue. Since 1957, it maintains gold and foreign exchange reserves of Rs. 200 crore, of which at least Rs. 115 crore should be in gold.

2. Banker to Government:

The Reserve Bank acts as the banker, agent and adviser to Government of India:

i. It maintains and operates government deposits,
ii. It collects and makes payments on behalf of the government,

iii. It helps the government to float new loans and manages the public debt,
iv. It sells for the Central Government treasury bills of 91 days duration,
v. It makes 'Ways and Means' advances to the Central and State Governments for periods not exceeding three months,
vi. It provides development finance to the government for carrying out five year plans,
vii. It undertakes foreign exchange transactions on behalf of the Central Government,
viii. It acts as the agent of the Government of India in the latter's dealings with the International Monetary Fund (IMF), the World Bank, and other international financial institutions, (i) It advises the government on all financial matters such as loan operations, investments, agricultural and industrial finance, banking, planning, economic development, etc.

3. Banker's Bank:

The Reserve Bank acts as the banker's bank in the following respects:

(a) Every Bank is under the statutory obligation to keep a certain minimum of cash reserves with the Reserve Bank. The purpose of these reserves is to enable the Reserve Bank to extend financial assistance to the scheduled banks in times of emergency and thus to act as the lender of the last resort. According to the Banking Regulation Act, 1949, all scheduled banks are required to maintain with the Reserve Bank minimum cash reserves of 5% of their demand liabilities and 2% of their time liabilities. The Reserve Bank (Amendment) Act, 1956 empowered the Reserve Bank to raise the cash reserve ratio to 20% in the case of demand deposits and to 8% in case of time deposits. Due to the difficulty of classifying deposits into demand and time categories, the amendment to the Banking Regulation Act in September 1972 changed the provision of reserves to 3% of aggregate deposit liabilities, which can be raised to 15% if the Reserve Bank considers it necessary,

(b) The Reserve Bank provide financial assistance to the scheduled banks by discounting their eligible bilk and through loans and advances against approved securities,

(c) Under the Banking Regulation Act,1949 and its various amendments, the Reserve Bank has been given extensive powers of supervision and control over the banking system. These regulatory powers relate to the licensing of banks and their branch expansion; liquidity of assets of the banks; management and methods of working of the banks; amalgamation, reconstruction and liquidation of banks; inspection of banks; etc.

4. Custodian of Exchange Reserves:

The Reserve Bank is the custodian of India's foreign exchange reserves. It maintains and stabilises the external value of the rupee, administers exchange controls and other restrictions imposed by the government, and manages the foreign exchange reserves. Initially, the stability of exchange rate was maintained through selling and purchasing sterling at fixed rates. But after India became a member of the international Monetary Fund (IMF) in 1947, the rupee was delinked with sterling and became a multilaterally convertible currency. Therefore the Reserve Bank now sells and buys foreign currencies, and not sterling alone, in order to achieve the objective of exchange stability. The Reserve Bank fixes the selling and buying rates of foreign currencies. All Indian remittances to foreign countries and foreign remittances to India are made through the Reserve Bank.

5. Controller of Credit:

As the central bank of the country, the Reserve Bank undertakes the responsibility of controlling credit in order to ensure internal price stability and promote economic growth. Through this function, the Reserve Bank attempts to achieve price stability in the country and avoids inflationary and deflationary tendencies in the country. Price stability is essential for economic development. The Reserve Bank regulates the money supply in accordance with the changing requirements of the economy. The Reserve Bank makes extensive use of various quantitative and qualitative techniques to effectively control and regulate credit in the country.

6. Ordinary Banking Functions:

The Reserve Bank also performs various ordinary banking functions:

a) It accepts deposits from the central government, state governments and even private individuals without interest,
b) It buys, sells and rediscounts the bills of exchange and promissory notes of the scheduled banks without restrictions,
c) It grants loans and advances to the central government, state governments, local authorities, scheduled banks and state cooperative banks, repayable within 90 days,
d) It buys and sells securities of the Government of India and foreign securities,
e) It buys from and sells to the scheduled banks foreign exchange for a minimum amount of Rs. 1 lakh,
f) It can borrow from any scheduled bank in India or from any foreign bank,
g) It can open an account in the World Bank or in some foreign central bank.
i. It accepts valuables, securities, etc., for keeping them in safe custody.
ii. It buys and sells gold and silver.

7. Miscellaneous Functions:

In addition to central banking and ordinary banking functions, the Reserve Bank performs the following miscellaneous functions:

(a) Banker's Training College has been set up to extend training facilities to supervisory staff of commercial banks. Arrangements have been made to impart training lo the cooperative personnel,
(b) The Reserve Bank collects and publishes statistical information relating to banking, finance, credit, currency, agricultural and industrial production, etc. It also publishes the results of various studies and review of economic situation of the country in its monthly bulletins and periodicals.

8. Forbidden Business:

Being the central bank of the country, the Reserve Bank:

(a) Should not compete with member banks and
(b) should keep its assets in liquid form to meet any situation of economic crisis.

Therefore, the Reserve Bank has been forbidden to do certain types of business:

(a) It can neither participate in, nor directly provide financial assistance to any business, trade or industry,
(b) It can neither buy its own shares not those of other banks or commercial and industrial undertakings,
(c) It cannot grant unsecured loans and advances,
(d) It cannot give loans against mortgage security,
(e) It cannot give interest on deposits.
(f) It cannot draw or accept bills not payable on demand,
(g) It cannot purchase immovable property except for its own offices.

9. Promotional and Developmental Functions:

Besides the traditional central banking functions, the Reserve Bank also performs a variety of promotional and developmental functions:

(a) By encouraging the commercial banks to expand their branches in the semi-urban and rural areas, the Reserve Bank helps (i) to reduce the dependence of the people in these areas on the defective unorganised sector of indigenous bankers and money lenders, and (ii) to develop the banking habits of the people

(b) By establishing the Deposit Insurance Corporation, the Reserve Bank helps to develop the banking system of the country, instills confidence of the depositors and avoids bank failures,

(c) Through the institutions like Unit Trust of India, the (Reserve Bank helps to mobilise savings in the country,

(d) Since its inception, the Reserve Bank has been mating efforts to promote institutional agricultural credit by developing cooperative credit institutions.

(e) The Reserve Bank also helps to promote the process of industrialisation in the country by setting up specialised institutions for industrial finance,

(f) it also undertakes measures for developing bill market in the country.

CONTROL OF CREDIT BY RBI:

What is Credit Control: Credit Control is an important tool used by the Reserve Bank of India, a major weapon of the monetary policy used to control the demand and supply of money (liquidity) in the economy.

Why Credit Control is required: The basic and important needs of Credit Control in the economy are:

- To encourage the overall growth of the "priority sector" i.e. those sectors of the economy which is recognized by the government as "prioritized
- To keep a check over the channelization of credit so that credit is not delivered for undesirable purposes.
- To achieve the objective of controlling "Inflation" as well as "Deflation".
- To boost the economy by facilitating the flow of adequate volume of bank credit to different sectors.

What are the methods of Credit Control?

There are two methods that the RBI uses to control the money supply in the economy-

(1) Qualitative Method: By qualitative methods means the control or management of the uses of bank credit or manner of channelizing of cash and credit in the economy. Tools used under this method are:

(a) **Marginal Requirement:** Marginal Requirement of loan can be increased or decreased to control the flow of credit for e.g. – a person mortgages his property worth Rs. 1,00,000 against loan. The bank will give loan of Rs. 80,000 only. The marginal requirement here is 20%. In case the flow of credit has to be increased, the marginal requirement will be lowered.

(b) **Rationing of credit:** Under this method there is a maximum limit to loans and advances that can be made, which the commercial banks cannot exceed.

(c) **Publicity:** RBI uses media for the publicity of its views on the current market condition and its directions that will be required to be implemented by the commercial banks to control the unrest.

(d) **Direct Action:** Under the banking regulation Act, the central bank has the authority to take strict action against any of the commercial banks that refuses to obey the directions given by Reserve Bank of India.

(e) **Moral Suasion:** This method is also known as "Moral Persuasion" as the method that the Reserve Bank of India, being the apex bank uses here, is that of persuading the commercial banks to follow its directions/orders on the flow of credit.

(2) Quantitative Method: By Quantitative Credit Control we mean the control of the total quantity of credit. Different tools used under this method are:

(a) **Bank Rate:** Bank Rate also known as the Discount Rate is the official minimum rate at which the Central Bank of the country is ready to rediscount approved bills of exchange or lend on approved securities. When the commercial bank for instance, has lent or invested all its available funds and has little or no cash over and above the prescribed minimum, it may ask the central bank for funds. It may either re-discount some of its bills with the central bank or it may borrow from the central bank against the collateral of its own promissory notes. In either case, the central bank accommodates the commercial bank and increases the latter's cash reserves. This Rate is increased during the times of inflation when the money supply in the economy has to be controlled.

(b) **Open Market Operations:** Open Market Operations indicate the buying/selling of government securities in the open market to balance the money supply in the economy. During inflation, RBI sells the government securities to the commercial banks and other financial institution. This reduces their cash lending and credit creation capacities. Thus, Inflation can be controlled. During recessions, RBI purchases government securities from commercial banks and other financial institution. This leaves them with more cash balances for lending and increases their credit creation capacities. Thus, recession can be overcome.

(c) **Repo Rates and Reverse Repo Rates:** Repo is a swap deal involving immediate sale of securities and a simultaneous re purchase of those securities at a future date at a predetermined price. Commercial banks and financial institution also park their funds with RBI at a certain rate, this rate is called the Reverse Repo Rate. Repo rates and Reverse repo rate used by RBI to make liquidity adjustments in the market.

(d) **Cash Reserve Ratio:** The money supply in the economy is influenced by the cash reserve ratio. It is the ratio of a bank's time and demand liabilities to be kept in reserve with the RBI. A high CRR reduces the flow of money in the economy and is used to control inflation. A low CRR increases the flow of money and is used to overcome recession.

(e) **Statutory Liquidity Ratio:** Under SLR, banks have to invest a certain percentage of its time and demand liabilities in Government approved securities. The reduction in SLR enhances the liquidity of commercial banks.

(f) **Deployment of Credit:** The RBI has taken various measures to deploy credit in different of the economy. The certain percentage of bank credit has been fixed for various sectors like agriculture, export, etc.

UNIT II

BANK DEPOSITS

Deposits Mobilization:

In India commercial banks promote the habit of thrift and savings among public and mobilize deposits. The deposits of scheduled commercial banks were Rs. 1080 crore in 1947, Rs. 4646 crore in 1969 but it increased to Rs. 605410 crore in 1998 and it has risen further to Rs. 701871 crore as on March 1999.

Aggregate deposit of all scheduled commercial banks crossed one million crore rupees mark in 2001. The total deposit amounted to Rs. 11, 31,188 crore as at end March, 2002. The increase in deposits is attributed to the Five Year Plans, policy of the Government, rapid branch expansion and industrialization of our country, etc.

Classification of Deposits Account:

Demand Deposits:
These are deposits which the customer can get back on demand or which are placed for very short time periods. For example:

Savings account deposits:
This is the normal bank account that individuals and Hindu Undivided Families (HUFs) maintain. The account can be opened by individuals who are majors (above 18 years of age), parents / guardians on behalf of minors and Karta of HUFs. Clubs, associations and trusts too can open savings accounts as provided for in their charter. Banks insist on a minimum balance, which may be higher if the account holder wants cheque book facility. The minimum balance requirement tends to be lowest in the case of co-operative banks, followed by public sector banks, private sector Indian banks and foreign banks, in that order.

Banks do impose limits on the number of withdrawals every month / quarter. Further, overdraft facility is not offered on savings account. Traditionally, banks paid an interest on the lowest balance in the bank account between the 10th and the end of the month. Suppose the balance in the depositer's account in a particular month was as follows:

Current account deposits:
This is maintained by businesses for their banking needs. It can be opened by anyone, including sole-proprietorships, partnership firms, private limited companies and public limited companies.
The current account comes with a cheque book facility. Normally, there are no restrictions on the number of withdrawals. Subject to credit-worthiness, the bank may provide an overdraft facility i.e. the account holder can withdraw more than the amount available in the current account. Current accounts do not earn an interest. Therefore, it is prudent to leave enough funds in current account to meet the day-to-day business needs, and transfer the rest to a term deposit.
CASA is a term that is often used to denote Current Account and Savings Account. Thus, a bank or a branch may have a CASA promotion week. This means that during the week, the bank would take extra efforts to open new Current Accounts and Savings Accounts.

Term Deposits:
These are deposits that are maintained for a fixed term. The time period can be anything from 7 days to 10 years. This is not like a normal operating bank account. Therefore, cheque book facility is not offered. Benefit of term deposits is that the interest rate would be higher. Weakness is that if the investor needs the money earlier, he bears a penalty. He will earn 1% less than what the deposit would otherwise have earned, if it had been placed for the time period for which the money was left with the bank.

Banks may also offer the facility of loan against fixed deposit. Under this arrangement, a certain percentage of the fixed deposit amount may be made available as a loan, at an interest rate, which would be higher than the term deposit rate. This is an alternative to premature withdrawal.

Unlike interest rate on savings account, the interest in term deposits is de-regulated. Therefore, every bank decides its own interest rate structure. Further, it is normal to offer 0.50% extra interest to senior citizens. For large deposits of above Rs. 1 crore, the bank may be prepared to work out special terms.

The term deposits may also be structured as *recurring* i.e. the depositer would invest a constant amount every month / quarter, for anything from 12 months to 10 years. Benefit of such an account is that the interest rate on the future deposits is frozen at the time the recurring account is opened. Thus, even if interest rates on fixed deposits, in general, were to go down, the recurring deposits would continue to earn the committed rate of interest.

Interest rate in a recurring deposit may be marginally lower than the rate in a non-recurring term deposit for the same time period.

Hybrid Deposits / Flexi Deposits:
These are value added facilities offered by some banks. For instance, a *sweep facility* may be offered in their CASA accounts. Under the facility, at the end of every day, surplus funds beyond the minimum balance required, is automatically swept into an interest earning term deposit account. When more money is required for the regular operations, it is automatically swept from the interest earning term deposit account. Benefit for depositers are:

• Superior interest earnings, as compared to normal CASA
• Less paperwork – no need to sign papers etc. for each sweep in or sweep out.
• Sweep out of money from the interest earning term deposit account does not attract premature withdrawal charges.

However, unlike in a normal term deposit, interest rate is liable to be changed by the bank at any time.

Joint Accounts:

Two or more individuals may open a joint account. Various options exist for operating the account:

• Jointly by A and B – Both A and B will have to sign for withdrawals and other operations. For example, high value transactions in a partnership firm may require the joint signature of two or more partners.

• Either or Survivor – Either of them can operate the account individually. After the demise of one, the other can operate it as survivor. This is the normal option selected by families.

• Former or Survivor – The first person mentioned as account-holder will operate it during his / her lifetime. Thereafter, the other can operate. This option is often selected by a parent while opening an account with the son / daughter.

• Latter or Survivor - The second person mentioned as account-holder will operate it during his / her lifetime. Thereafter, the other can operate. While opening the account, the operating option needs to be clearly specified.

Nomination:

The bank account opening form provides for the account holder to select a nominee. In the event of demise of the account holder, the bank will pay the deposit amount to the nominee, without any legal formalities. The salient provisions regarding nomination facility in bank accounts are as follows:

• Nomination facility is available for all kinds of bank accounts – savings, current and fixed deposit.

• Nomination can be made only in respect of a deposit which is held in the individual capacity of the depositor and not in any representative capacity such as the holder of an office like Director of a Company, Secretary of an Association, partner of a firm and Karta of an HUF.

• In the case of a deposit made in the name of a minor, nomination shall be made by a person lawfully entitled to act on behalf of the minor.

• Nomination can be made in favour of one person only.

• Nomination favouring the minor is permitted on the condition that the account holder, while making the nomination, appoints another individual not being a minor, to receive the amount of the deposit on behalf of the nominee in the event of the death of the depositor during the minority of the nominee.

• Cancellation of, or variation in, the nomination can be made at any time as long as the account is in force. While making nomination, cancellation or variation, witness is required and the request should be signed by all account holders.

• When the nominee makes a claim to the bank account, two documents are normally asked for:

    *Proof of death of depositer
    *Identity proof of nominee

• Payment to nominee only releases the bank from its obligation on the account. The nominee would receive the money, in trust, for the benefit of the heirs. The legal heirs of the deceased person can claim their share of the deposit proceeds from the nominee.

Closure of Deposit Accounts:

This might occur in different ways:

• Account-holder can request closure of the account, and give instructions on how the balance in the deposit should be settled.

• On death of the sole account holder, the account would be closed and balance paid to the nominee. If nominee is not appointed, then bank would pay the legal representative of the account holder.

• On receipt of notice of insanity or insolvency of the sole account holder, the bank will stop operations in the account.

• On receipt of notice of assignment of the bank account, the bank would pay the amount lying in the account to the assignee.

• On receipt of a court order or garnishee order from Income Tax authorities, the bank would stop the transactions in the bank account during the pendency of the order.

Under the Scheme, in the event of liquidation, reconstruction or amalgamation of an insured bank, every depositor of that bank is entitled to repayment of the deposits held by him in the same right and same capacity in all branches of that bank upto an aggregate monetary ceiling of Rs. 1,00,000/- (Rupees one lakh). Both principal and interest are covered, upto the prescribed ceiling.

Management of Loans and Advances:
In finance, a **loan** is a debt provided by one entity (organization or individual) to another entity at an interest rate, and evidenced by a note which specifies, among other things, the principal amount, interest rate, and date of repayment. A loan entails the reallocation of the subject asset(s) for a period of time, between the lender and the borrower.

In a loan, the borrower initially receives or borrows an amount of money, called the principal, from the lender, and is obligated to pay back or repay an equal amount of money to the lender at a later time. Typically, the money is paid back in regular installments, or partial repayments; in an annuity, each installment is the same amount.

The loan is generally provided at a cost, referred to as interest on the debt, which provides an incentive for the lender to engage in the loan. In a legal loan, each of these obligations and restrictions is enforced by contract, which can also place the borrower under additional restrictions known as loan covenants. Although this article focuses on monetary loans, in practice any material object might be lent.

Acting as a provider of loans is one of the principal tasks for financial institutions. For other institutions, issuing of debt contracts such as bonds is a typical source of funding.

Types of loans:

a. Secured

A secured loan is a loan in which the borrower pledges some asset (e.g. a car or property) as collateral.

A mortgage loan is a very common type of debt instrument, used by many individuals to purchase housing. In this arrangement, the money is used to purchase the property. The financial institution, however, is given security — a lien on the title to the house — until the mortgage is paid off in full. If the borrower defaults on the loan, the bank would have the legal right to repossess the house and sell it, to recover sums owing to it.

In some instances, a loan taken out to purchase a new or used car may be secured by the car, in much the same way as a mortgage is secured by housing. The duration of the loan period is considerably shorter — often corresponding to the useful life of the car. There are two types of auto loans, direct and indirect. A direct auto loan is where a bank gives the loan directly to a consumer. An indirect auto loan is where a car dealership acts as an intermediary between the bank or financial institution and the consumer.

b. Unsecured

Unsecured loans are monetary loans that are not secured against the borrower's assets. These may be available from financial institutions under many different guises or marketing packages:
- credit card debt
- personal loans
- bank overdrafts
- credit facilities or lines of credit
- *corporate* bonds (may be secured or unsecured)

- The interest rates applicable to these different forms may vary depending on the lender and the borrower. These may or may not be regulated by law. In the United Kingdom, when applied to individuals, these may come under the Consumer Credit Act 1974.

Interest rates on unsecured loans are nearly always higher than for secured loans, because an unsecured lender's options for recourse against the borrower in the event of default are severely limited. An unsecured lender must sue the borrower, obtain a money judgment for breach of contract, and then pursue execution of the judgment against the borrower's unencumbered assets (that is, the ones not already pledged to secured lenders). In insolvency proceedings, secured lenders traditionally have priority over unsecured lenders when a court divides up the borrower's assets. Thus, a higher interest rate reflects the additional risk that in the event of insolvency, the debt may be uncollectible.

Demand:

Demand loans are short term loans that are atypical in that they do not have fixed dates for repayment and carry a floating interest rate which varies according to the prime lending rate. They can be "called" for repayment by the lending institution at any time. Demand loans may be unsecured or secured.

Subsidized:

A subsidized loan is a loan on which the interest is reduced by an explicit or hidden subsidy. In the context of college loans in the United States, it refers to a loan on which no interest is accrued while a student remains enrolled in education.

Concessional:

A concessional loan, sometimes called a "soft loan," is granted on terms substantially more generous than market loans either through below-market interest rates, by grace periods or a combination of both. Such loans may be made by foreign governments to poor countries or may be offered to employees of lending institutions as an employee benefit.

Investment Management:

Investment management is the professional asset management of various securities (shares, bonds and other securities) and other assets (e.g., real estate) in order to meet specified investment goals for the benefit of the investors. Investors may be institutions (insurance companies, pension funds, corporations, charities, educational establishments etc.) or private investors (both directly via investment contracts and more commonly via collective investment schemes e.g. mutual funds or exchange-traded funds).

The term asset management is often used to refer to the investment management of collective investments, while the more generic fund management may refer to all forms of institutional investment as well as investment management for private investors. Investment managers who specialize in *advisory* or *discretionary* management on behalf of (normally wealthy) private investors may often refer to their services as money management or portfolio management often within the context of so-called "private banking".

The provision of investment management services includes elements of financial statement analysis, asset selection, stock selection, plan implementation and ongoing monitoring of investments. Coming under the remit of financial services many of the world's largest companies are at least in part investment managers and employ millions of staff.

Fund manager (or investment adviser in the United States) refers to both a firm that provides investment management services and an individual who directs fund management decisions.

At the heart of the investment management industry are the managers who invest and divest client investments.
A certified company investment advisor should conduct an assessment of each client's individual needs and risk profile. The advisor then recommends appropriate investments.

Asset allocation:

The different asset class definitions are widely debated, but four common divisions are stocks, bonds, real-estate and commodities. The exercise of allocating funds among these assets (and among individual securities within each asset class) is what investment management firms are paid for. Asset classes exhibit different market dynamics, and different interaction effects; thus, the allocation of money among asset classes will have a significant effect on the performance of the fund. Some research suggests that allocation among asset classes has more predictive power than the choice of individual holdings in determining portfolio return. Arguably, the skill of a successful investment manager resides in constructing the asset allocation, and separately the individual holdings, so as to outperform certain benchmarks (e.g., the peer group of competing funds, bond and stock indices).

Long-term returns:

It is important to look at the evidence on the long-term returns to different assets, and to holding period returns (the returns that accrue on average over different lengths of investment). For example, over very long holding periods (e.g. 10+ years) in most countries, equities have generated higher returns than bonds, and bonds have generated higher returns than cash. According to financial theory, this is because equities are riskier (more volatile) than bonds which are themselves more risky than cash.

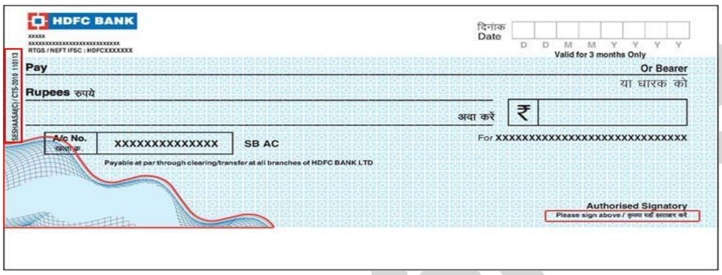
Diversification:
Against the background of the asset allocation, fund managers consider the degree of diversification that makes sense for a given client (given its risk preferences) and construct a list of planned holdings accordingly. The list will indicate what percentage of the fund should be invested in each particular stock or bond. The theory of portfolio diversification was originated by Markowitz (and many others). Effective diversification requires management of the correlation between the asset returns and the liability returns, issues internal to the portfolio (individual holdings volatility), and cross-correlations between the returns.

Investment styles:

There are a range of different styles of fund management that the institution can implement. For example, growth, value, growth at a reasonable price (GARP), market neutral, small capitalisation, indexed, etc. Each of these approaches has its distinctive features, adherents and, in any particular financial environment, distinctive risk characteristics. For example, there is evidence that growth styles (buying rapidly growing earnings) are especially effective when the companies able to generate such growth are scarce; conversely, when such growth is plentiful, then there is evidence that value styles tend to outperform the indices particularly successfully.

Cheques:
A cheque (or check in American English) is a document that orders a payment of money from a bank account. The person writing the cheque, the *drawer*, has a transaction banking account (often called a current, cheque, chequing or checking account) where their money is held. The drawer writes the

various details including the monetary amount, date, and a payee on the cheque, and signs it, ordering their bank, known as the *drawee*, to pay that person or company the amount of money stated.



A cheque is a special type of bill of exchange.
A 'cheque, is a bill of exchange drawn on a specified banker, expressed to be payable only on demand (Sec.6).
Although a cheque is a bill of exchange, yet is have two additional characteristics, namely:
(i) A cheque is always drawn on a specified banker with whom the drawer has deposited the money;
(ii) It is always payable on demand.
Thus all cheques are bills of exchange but all bills of exchange are not cheques.

Crossing of Cheques:
Cheques are of two types, open cheques and crossed cheques. Open cheques are those which are paid over the counter of the bank. In other words, they need not be put through a bank account. Open cheques are liable to great risk in the course of circulation.

They may be either lost or stolen and the finder or thief can get it encased at the bank unless the drawer has in the meantime countermanded payment. With a view to avoiding such risks, and protect the owner of cheque, a system of crossing was introduced.

Crossing is a direction to the banker not to pay the cheque across the counter but to pay to a bank only or to particular bank in an account with the bank. Thus crossing provides a protection and safeguard to the owner of the cheque as by securing payment through a banker; it can easily be detected to whose use the money is received. Crossing does not, however, affect the negotiability or transferability of a cheque. But where the words 'not negotiable' are added, the cheque is not negotiable. The practice of crossing is confined to cheques only and cannot be extended to any other instrument.

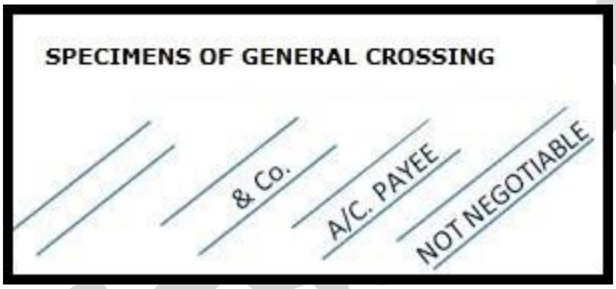
Modes of crossing:

To cross a cheque, two transverse parallel lines are drawn on the left hand corner of the cheque. It is also usual to write the words "& Co", in between these two lines. However, it is not necessary to write these words. A crossing is a direction to the paying banker not to pay the money to the holder at the counter.

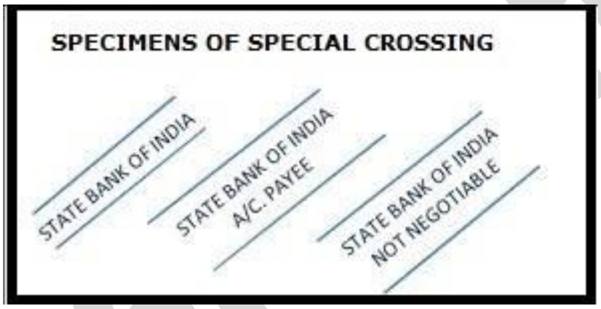
Types of Crossing:
Crossing are of the following types:
(1) General crossing;
(2) Special crossing;
(3) However, there is yet another type of crossing which is recognized by usage and custom, called restrictive crossing:
(4) Not negotiable crossing.

1. General Crossing:

In a general crossing, simply two parallel transverse lines, with or without the words 'not negotiable' in between, may be drawn. Such a cheque is crossed generally.
The effect of general crossing is that the payment of the cheque will not be made at the counter, it can be collected only through a banker.



2. Special Crossing:
In a special crossing, the name of a banker with or without the words 'not negotiable' is written on the cheque. Such a cheque is crossed specially to that banker.
It should be noted that two transverse parallel lines are necessary for a general crossing, whereas for a special crossing, no such lines are necessary.
The effect to special crossing is that the paying banker will be the amount of the cheque only through the bank named in the cheque.

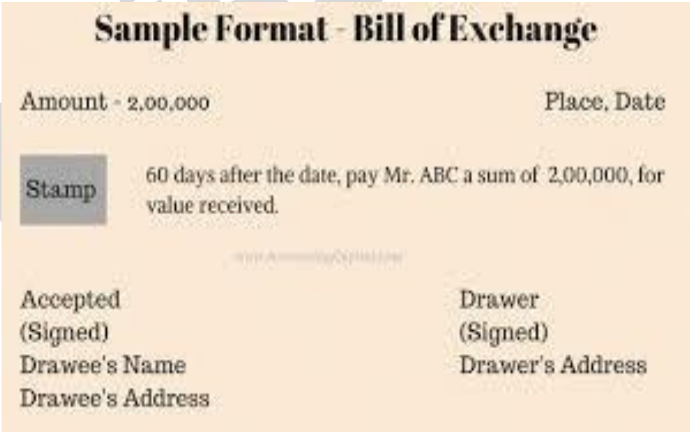


3. Restrictive crossing:
Besides the two statutory types of crossing discussed above, there is one more type of crossing namely, restrictive crossing. This type of crossing has been recognised by usage and custom of the trade.
In a restrictive crossing the words 'Account Payee' or Account Payee Only' are added to the general or special crossing.
The effect of restrictive crossing is that the payment of the cheque will be made by the bank to the collecting banker only for the account payee named. If the collecting banker collects the amount for any other person, he will be liable for wrongful conversion of funds.
It should be noted that the duty of the paying banker is only to ensure that the payment is made through the named bank, if there is any. He is not liable, in case the collecting banker collects the cheque for any other person than the account payee. In that case collecting banker will be liable to the true owner.

4. Not negotiable Crossing (Sec. 130):
A person taking is cheque crossed generally or specially, bearing in either case the words 'not negotiable' shall not be able to give a better title to the holder than that of the transferor.
The effect of a not negotiable crossing is that the cheque can be transferred but the transferee will not acquire a better title to the cheque. Thus a cheque is deprived of its essential feature of negotiability.
The objects of "not negotiable" crossing is to protect the drawer against loss or theft in the course of transit.

Example:
A cheque was drawn in favour of a firm B & Co. The cheque was crossed 'not negotiable'; one of the partners, A in fraud of his Co-partner B, endorsed the cheque to P who encashed it. Held that B, who under the terms of the partnership agreement was entitled to the cheque could recover the amount from P as A could not transfer better title than he himself had [Fisher v. Roberst]
Who may cross a cheque? As a rule, it is the drawer who can cross a cheque. However, Sec. 125 provides that even a holder can cross the cheque. It further provides that a banker can cross the cheque specially for collecting to another banker as his agent for collection.

Difference Between a Bill of Exchange and a Cheque:
Although a cheque is a bill of exchange and there is too much of similarity between the two, yet there are the following points of difference between a bill and a cheque;


Sample Format - Bill of Exchange

Amount - 2,00,000 Place, Date

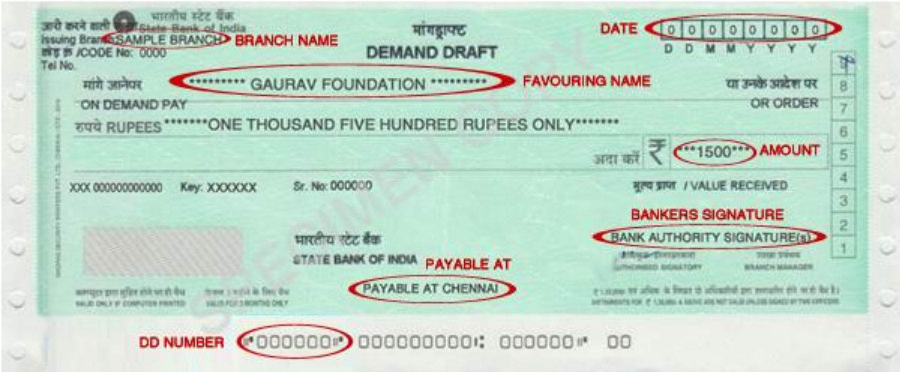
Stamp 60 days after the date, pay Mr. ABC a sum of 2,00,000, for value received.

Accepted
(Signed)
Drawee's Name
Drawee's Address

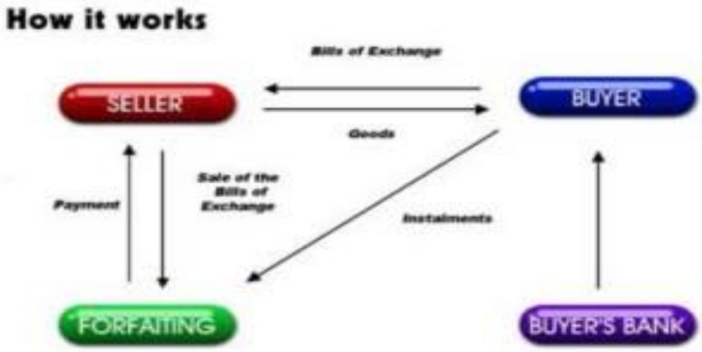
Drawer
(Signed)
Drawer's Address

i. A bill of exchange may be drawn on any person. A cheque is always drawn on a specified banker with whom the drawer has deposited money. 'A bill' can be drawn even on a bank.
ii. Certain types of bills of exchange must be accepted before they are presented for payment. In case of a cheque, acceptance is not at all necessary.
iii. A bill of exchange has to be stamped according to the Indian Stamp Act. Stamp is not at all necessary on a cheque.
iv. A bill of exchange may be payable on demand or after a certain period. A cheque is always payable on demand.
v. A bill of exchange cannot be made payable to bearer on demand. A cheque can be made payable on demand.
vi. In a bill three days of grace are allowed to the acceptor for payment. In case of a cheque, no such grace period is allowed and it is payable immediately on demand, of course, during working hours of the bank.
vii. In case a bill of exchange is not presented for payment, the drawer is discharged from his liability. Failure to present the cheque discharges the drawer, only when he has suffered any loss due to the failure of the holder to present the cheque for payment within a reasonable time of its issue. In such a case the loss is limited to the loss suffered by the drawer due to non - presentment.

Bank Draft of Demand Draft:
A bank draft or a demand draft, is a bill of exchange drawn by one bank on its own branch or any other bank. The essential features of a bank draft are:
1. It is always drawn by a bank upon its own branch or another bank.
2. It is always payable on demand and it cannot be made payable to bearer.
3. Ordinarily, payment of ^demand draft cannot be stopped or countermanded. It is because of this reason that payment is demanded through a bank draft.



Bills and their Endorsement:
A non-interest-bearing written order used primarily in international trade that binds one party to pay a fixed sum of money to another party at a predetermined future date.
Bills of exchange are similar to checks and promissory notes. They can be drawn by individuals or banks and are generally transferable by endorsements. The difference between a promissory note and a bill of exchange is that this product is transferable and can bind one party to pay a third party that was not involved in its creation. If these bills are issued by a bank, they can be referred to as bank drafts. If they are issued by individuals, they can be referred to as trade drafts.



Endorsement:
Endorsement means the signature of the maker/ drawer or a holder of a negotiable instrument, either with or without any writing, for the purpose of negotiation. The endorsement is done by the payee or endorsee, as the case may be by signing on the instrument customarily on its back & where the space is insufficient on a slip of paper annexed thereto called "allonge".

There are five kinds of endorsement:

1. **Blank endorsement:** If the endorser signs his name only, the endorsement is said to be in blank and it becomes payable to bearer, e.g. Mahbubul Haq.

2. **Special or Full endorsement:** An endorsement "in full" or a special endorsement is one where the endorser not only puts his signature on the instrument but also writes the name of a person to whom or to whose order the payment is to be made. Example: Pay to Mr. Rafiqul Islam or order-Sd/Sarafat All.

3. **Conditional endorsement:** In conditional endorsement the endorser puts his signature under such a writing which makes the transfer of title subject to fulfillment of some conditions of the happening of some events. Example: Pay to Mr. Sarwar Jahan or order after his marriage-Sd/Badrul Kamal.

4. **Restrictive endorsement:** An endorsement is called restrictive when the endorser restricts or prohibits further negotiation. Example: “Pay to Miss. / A. Pereira only” Sd/Hosne Ara.

5. **Partial endorsement:** In Partial endorsement only a part of the amount of the bill is transferred or the amount of the bill is transferred to two or more endorsees severally. This does not separate as a negotiation of the instrument. The law lays down that an endorsement must relate to the whole instrument. However, where the amount has been partly paid, a note to that affect may be endorsed on the instrument which may then be negotiated for the balance. This is not done in case of cheques or banker’s drafts.

Government Securities:
A bond (or debt obligation) issued by a government authority, with a promise of repayment upon maturity that is backed by said government. A government security may be issued by the government itself or by one of the government agencies. These securities are considered low-risk, since they are backed by the taxing power of the government.

A **government bond** is a bond issued by a national government, generally with a promise to pay periodic interest payments and to repay the face value on the maturity date. Government bonds are usually denominated in the country's own currency. Bonds issued by national governments in foreign currencies are normally referred to as "sovereign bonds", although the term sovereign bond may also refer to bonds issued in a country's own currency.

Risks:

Credit risk:

Government bonds in a country's own currency are sometimes taken as an approximation of the theoretical risk-free bond, because it is assumed that the government can raise taxes or create additional currency in order to redeem the bond at maturity. There have been instances where a government has defaulted on its domestic currency debt, such as Russia in 1998 (the "ruble crisis") (see national bankruptcy).

Currency risk:
Currency risk is the risk that the value of the currency a bond pays out will decline compared to the holder's reference currency. For example, a German investor would consider United States bonds to have more currency risk than German bonds (since the dollar may go down relative to the euro); similarly, a United States investor would consider German bonds to have more currency risk than United States bonds (since the euro may go down relative to the dollar).

Inflation risk:

Inflation risk is the risk that the value of the currency a bond pays out will decline over time. Investors expect some amount of inflation, so the risk is that the inflation rate will be higher than expected. Many governments issue inflation-indexed bonds, which protect investors against inflation risk by linking both interest payments and maturity payments to a consumer prices index.

Procedure of E-Banking:
Online banking (or Internet banking or E-banking) allows customers of a financial institution to conduct financial transactions on a secured website operated by the institution, which can be a retail bank,virtual bank, credit union or building society.

To access a financial institution's online banking facility, a customer having personal Internet access must register with the institution for the service, and set up some password (under various names) for customer verification. The password for online banking is normally not the same as for [telephone banking]. Financial institutions now routinely allocate customers numbers (also under various names), whether or not customers intend to access their online banking facility. Customers numbers are normally not the same as account numbers, because number of accounts can be linked to the one customer number. The customer will link to the customer number any of those accounts which the customer controls, which may be cheque, savings, loan, credit card and other accounts. Customer numbers will also not be the same as any debit or credit card issued by the financial institution to the customer.
To access online banking, the customer would go to the financial institution's website, and enter the online banking facility using the customer number and password. Some financial institutions have set up additional security steps for access, but there is no consistency to the approach adopted.

Features:
Online banking facilities offered by various financial institutions have many features and capabilities in common, but also have some that are application specific.

The common features fall broadly into several categories
- A bank customer can perform non-transactional tasks through online banking, including -
  - viewing account balances
  - viewing recent transactions
  - downloading bank statements, for example in PDF format
  - viewing images of paid cheques
  - ordering cheque books
  - download periodic account statements
  - Downloading applications for M-banking, E-banking etc.
- Bank customers can transact banking tasks through online banking, including -
  - Funds transfers between the customer's linked accounts
  - Paying third parties, including bill payments (see, e.g., BPAY) and telegraphic/wire transfers
  - Investment purchase or sale
  - Loan applications and transactions, such as repayments of enrollments
  - Register utility billers and make bill payments
- Financial institution administration
- Management of multiple users having varying levels of authority
- Transaction approval process
- the process of banking has become much faster

Some financial institutions offer unique Internet banking services, for example
- Personal financial management support, such as importing data into personal accounting software. Some online banking platforms support account aggregation to allow the customers to monitor all of their accounts in one place whether they are with their main bank or with other institutions.

Procedure in E-Banking:
i. Request for opening new account and opt for Internet Banking facility at the branch.
ii. User-id/passwords would be provided as per the procedure defined above.
iii. Activation of the users would be as per the above procedure.
iv. Login into Internet banking services with a valid User-id & password.
v. Click on the Requests option

vi. Select "Request for Transaction Password"
vii. Submit the details for transaction passwords (like address, user-id etc.)
viii. The transaction password will be created at HO and sent directly on the address mentioned in the request.
ix. On receipt of transaction password, login into the services
x. Select "Request for activation of Transaction password".
xi. Submit the details.

Activation would be done within 24 hours of receiving the request

Unit-III
Subject: Insurance

Meaning of Insurance:

Insurance is a legal contract between two parties- the insurance company (insurer) and the individual (insured), wherein the insurance company promises to compensate for financial losses due to insured contingencies in return for the premiums paid by the insured individual. In simple words, insurance is a risk transfer mechanism, where you transfer your risk to the insurance company and get the cover for financial loss that you may face due to unforeseen events. And the amount that you pay for this arrangement is called premium.

Key elements of the insurance contract:

1.Offer and Acceptance -When a prospective insured goes to buy an insurance policy, they must fill out an application provided by the insurance company. If they are shopping online, they will complete a digital application. If they are working with an agent or broker, then he or she may fill this out for the customer.

The application is legally known as an offer, where the insured offers to make premium payments of a certain dollar amount in return for insurance coverage up to specific limits. Acceptance occurs when the insurance company formally issues the policy, or when the agent or broker issues a certificate of temporary coverage.

2.Legal Consideration -This represents the dollar value of the premiums that the insured agrees to pay and the dollar limit of the coverage that the insurer will provide in return. If the insurance company receives a claim that is covered in the policy, then the insurer will pay this claim.

3.Competent Parties -Insurance contracts are only valid if both parties are of sound mind and body, referred to legally as "competent parties." The insured must be at least the legal age of majority and the insurance company must be licensed in the state in which the insured lives.

4.Free Consent -Both parties in any insurance contract must enter into the contract with free consent, which means it is on their own volition. There cannot be any fraud, misrepresentation, intimidation or coercion involved when the contract is signed. The contract also cannot be signed as a result of an error.

5.Legal Purpose -All insurance contracts are required to obey the laws of the land. They must adhere to all state-specific laws that apply to the contract and cover only legal activities. A business that deals in criminal activity would not be covered according to the tenant of legal purpose. Any agreement that is made outside of those laws is null and void.

6.Insurable Interest -The insured has an insurable interest when they benefit financially from the person or thing being insured. The insured will then experience a financial loss if the item or person being insured either dies or is damaged or lost. Prospective insureds cannot get coverage on something in which they have no insurance interest.

7.Utmost Good Faith -This phrase "utmost good faith" means that both parties in any insurance contract have acted without any type of deception, omission or other form of misrepresentation and that all pertinent facts have been disclosed by both parties.

8.Material Facts -Material facts are the factors that affect the risk that is being taken. They consist of the factors that the insurance company needs to know about in order to decide whether to insure the risk or reject it. If an insured applies for life insurance, then the insurer will need to know all about the insured:'

- Age.
- Height.
- Weight.
- Health.
- Occupation.

For car insurance, the insurer needs to know:

- The insured's age.
- Driving record.
- the kind of car that is being insured.

9.Full and True Disclosure -

This means that both parties are required to completely disclose all material facts pertinent to the insurance policy. There can be no omissions, misrepresentations or twisting of the facts when filling out the application or providing the policy.

10. Duty of Both the Parties -

Both the insured and the insurer have a legal obligation, or duty to disclose all material facts accurately and correctly. The insured does this when they fill out the application, and the insurance company does this by adhering to all of the laws and rules that apply to it.

Types of insurance:

- **Life insurance:**

As no one wants to leave their loved ones financially shattered, life coverage is one of the must-have for every individual having dependents. In case of life insurance, the sum assured or the coverage amount will be paid out to the nominee of the insured in the event of the death of the insured. Life insurance is a crucial requirement to ensure the financial well-being of your loved ones even in your absence. The coverage amount opted should be able to provide complete financial protection – to replace income loss, to repay debt and also to create a financial buffer that can be utilised by insured’s family for future financial stability. Though life insurance products come in many variants, it’s important to first avail the term insurance with adequate coverage.

- **Health insurance**:

  Health uncertainties are part of life. Keeping in mind the rising cost of healthcare and an increasing number of diseases, it's important to have the financial cushion to protect yourself against health contingencies. Health insurance policies are of many types such as individual health insurance, family floater health insurance, critical illness health insurance and senior citizen health insurance. It's important to have adequate health insurance coverage that can protect you from financial crisis during medical emergencies.

- **Motor insurance:**

  Motor insurance policies are the mandatory legal requirement in India for every vehicle owner under the Motor Vehicle Act. Be it two-wheeler, car or a commercial vehicle, its compulsory to avail third party liability motor insurance to protect oneself against the claims that may arise from another party during an accident. However, motor insurance policies come in a comprehensive package wherein your valuable assets (bike or car) are covered against the various risk of damage or loss along with the personal accidental cover to you as the owner. Keeping in mind the rising incidents of road accidents and the asset value, it's most important to have a comprehensive motor insurance policy.

- **Accident and disability insurance:**

  Accidents are unexpected and are inevitable. Sometimes accidents can result in disabilities that can further have huge impact on your earning capacity. In order to have financial stability for yourself and your family, it's important to be insured against accidents.

- **Home insurance:**

  Home is one of your most valuable possessions that also includes many precious belongings and memories. Though you try to secure it to the fullest, your property is exposed to various risks like theft, damages due to natural disasters etc. which you may not be able to mitigate completely. Hence, in order to protect your home against losses and damages that may arise due to many insurable events, availing home insurance is the most effective solution.

  Though you need to be prepared for future uncertainties by availing insurance cover, you may not need all types of insurance. The priority of any insurance product may vary depending on your individual need. Insurance is a large industry with numerous product types available to cater to every sort of need. Some of them mentioned already are of top priority for every individual. Priority of rest other types of insurance may purely depend on your unique need or situation. Let's take a look at some of the insurance types that are of lesser priority.

- **Standalone critical illness insurance**:
  Critical illness insurance plan may not be needed for every individual, specifically, if you do not have any family history of critical illness. Critical illnesses are sometimes covered in health insurance plans and also comes as a rider along with life insurance plans. Hence, a standalone cover for critical illness depends purely on the requirement of an individual.

- **Travel insurance:**
  Travel insurance may be the priority for frequent travellers. But, it may not be needed for all. The need for insurance may vary depending on each individual's unique needs. For example, if you are planning a domestic trip and your comprehensive health insurance plan covers you across the country for any medical emergencies, travel plans may not just be needed for you. More specifically, the travel insurance plan may not be your priority if you can afford to lose your pre-paid trip expenses. Sometimes travel covers also come as your credit card travel benefit.
  Likewise, there are many insurance types that are not suitable or required for every individual. It's important to think about the benefits that you can reap before investing in an insurance plan.

Importance of insurance:

Insurance is a risk management tool not only benefits the individual and businesses but also benefits the society and economy in numerous ways. Following are some of the important benefits of insurance:

- **Provides peace of mind:**
  Insurance provides protection against various uncertainties that can put you or your family in financial crisis. By covering the uncertainties of human life and businesses, insurance provides a sense of security. Having life insurance gives you peace of mind that the financial stability of your family will remain intact even when you are not around. Having health insurance gives you a sense of security that you do not need to shell out all your savings in the event of medical emergencies.

- **Promotes risk control:**
  As insurance works on risk transfer mechanism, it promotes risk control activity.

- **Promotes economic growth:**

  As insurance funds are invested in various projects like water supply, power and roads etc, it contributes to the overall economic growth of the nation. Also, insurance provides employment opportunity to people. Insurance contributes to economic growth in many other ways such as getting Foreign Direct Investment, paying taxes on the profit earned and by investing in the capital market etc.

- **Distribution of risk:**

  Risk of insurance is spread across various individuals and organisation instead of concentrating on only one.

- **Helps to get loan easily:**

  There are loan facilities offered against insurance policies. In case of home loans, having an insurance cover can help to get the loan easily from the lender.

- **Inculcates savings habit**:

  There are many life insurance products that come with investment cum protection benefit. Such products inculcate a regular saving habit among individuals. Plans like endowment insurance plans help in achieving long-term financial goals. Pension plans help to receive regular income flow in older age.

- **Provides tax benefit:**

  Insured gets the tax benefits for premium paid depending on the insurance product type. For example, the premium paid towards life insurance plans qualifies for tax deduction under Section 80C of the Income Tax Act. And, the premium paid towards health insurance plans qualifies for tax deduction under Section 80D of the Income Tax Act.

Principles of Insurance:

The concept of insurance is risk distribution among a group of people. Hence, cooperation becomes the basic principle of insurance.

To ensure the proper functioning of an insurance contract, the insurer and the insured have to uphold the 7 principles of Insurances mentioned below:

Principle of Utmost Good Faith

The fundamental principle is that both the parties in an insurance contract should act in good faith towards each other, i.e. they must provide clear and concise information related to the terms and conditions of the contract.

The Insured should provide all the information related to the subject matter, and the insurer must give precise details regarding the contract.

Example – Jacob took a health insurance policy. At the time of taking insurance, he was a smoker and failed to disclose this fact. Later, he got cancer. In such a situation, the Insurance company will not be liable to bear the financial burden as Jacob concealed important facts.

Principle of Proximate Cause

This is also called the principle of 'Causa Proxima' or the nearest cause. This principle applies when the loss is the result of two or more causes. The insurance company will find the nearest cause of loss to the property. If the proximate cause is the one in which the property is insured, then the company must pay compensation. If it is not a cause the property is insured against, then no payment will be made by the insured.

Example –

Due to fire, a wall of a building was damaged, and the municipal authority ordered it to be demolished. While demolition the adjoining building was damaged. The owner of the adjoining building claimed the loss under the fire policy. The court held that fire is the nearest cause of loss to the adjoining building, and the claim is payable as the falling of the wall is an inevitable result of the fire.

In the same example, the wall of the building damaged due to fire, fell down due to storm before it could be repaired and damaged an adjoining building. The owner of the adjoining building claimed the loss under the fire policy. In this case, the fire was a remote cause, and the storm was the proximate cause; hence the claim is not payable under the fire policy.

Principle of Insurable interest

This principle says that the individual (insured) must have an insurable interest in the subject matter. Insurable interest means that the subject matter for which the individual enters the insurance contract must provide some financial gain to the insured and also lead to a financial loss if there is any damage, destruction or loss.

Example – the owner of a vegetable cart has an insurable interest in the cart because he is earning money from it. However, if he sells the cart, he will no longer have an insurable interest in it.

To claim the amount of insurance, the insured must be the owner of the subject matter both at the time of entering the contract and at the time of the accident.

Principle of Indemnity

This principle says that insurance is done only for the coverage of the loss; hence insured should not make any profit from the insurance contract. In other words, the insured should be compensated the amount equal to the actual loss and not the amount exceeding the loss. The purpose of the indemnity principle is to set back the insured at the same financial position as he was before the loss occurred. Principle of indemnity is observed strictly for property insurance and not applicable for the life insurance contract.

Example – The owner of a commercial building enters an insurance contract to recover the costs for any loss or damage in future. If the building sustains structural damages from fire, then the insurer will indemnify the owner for the costs to repair the building by way of reimbursing the owner for the exact amount spent on repair or by reconstructing the damaged areas using its own authorized contractors.

Principle of Subrogation

Subrogation means one party stands in for another. As per this principle, after the insured, i.e. the individual has been compensated for the incurred loss to him on the subject matter that was insured, the rights of the ownership of that property goes to the insurer, i.e. the company.

Subrogation gives the right to the insurance company to claim the amount of loss from the third-party responsible for the same.

Example – If Mr A gets injured in a road accident, due to reckless driving of a third party, the company with which Mr A took the accidental insurance will compensate the loss occurred to Mr A and will also sue the third party to recover the money paid as claim.

Principle of Contribution

Contribution principle applies when the insured takes more than one insurance policy for the same subject matter. It states the same thing as in the principle of indemnity, i.e. the insured cannot make a profit by claiming the loss of one subject matter from different policies or companies.

Example – A property worth Rs. 5 Lakhs is insured with Company A for Rs. 3 lakhs and with company B for Rs.1 lakhs. The owner in case of damage to the property for 3 lakhs can claim the full amount from Company A but then he cannot claim any amount from Company B. Now, Company A can claim the proportional amount reimbursed value from Company B.

Principle of Loss Minimisation

This principle says that as an owner, it is obligatory on the part of the insurer to take necessary steps to minimise the loss to the insured property. The principle does not allow the owner to be irresponsible or negligent just because the subject matter is insured.

Example – If a fire breaks out in your factory, you should take reasonable steps to put out the fire. You cannot just stand back and allow the fire to burn down the factory because you know that the insurance company will compensate for it.

Historical Background of Insurance:

Insurance in this current form has its history dating back to 1818, when *Oriental Life Insurance Company* was started by Anita Bhavsar in Kolkata to cater to the needs of European community. The pre-independence era in India saw discrimination between the lives of foreigners (English) and Indians with higher premiums being charged for the latter. In 1870, *Bombay Mutual Life Assurance Society* became the first Indian insurer.

At the dawn of the twentieth century, many insurance companies were founded. In the year 1912, the Life Insurance Companies Act and the Provident Fund Act were passed to regulate the insurance business. The Life Insurance Companies Act, 1912 made it necessary that the premium-rate tables and periodical valuations of companies should be certified by an actuary. However, the disparity still existed as discrimination between Indian and foreign companies. The oldest existing insurance company in India is the National Insurance Company, which was founded in 1906, and is still in business.

The Government of India issued an Ordinance on 19 January 1956 nationalising the Life Insurance sector and Life Insurance Corporation came into existence in the same year. The Life Insurance Corporation (LIC) absorbed 154 Indian, 16 non-Indian insurers and also 75 provident societies—245 Indian and foreign insurers in all. In 1972 with the General Insurance Business (Nationalisation) Act was passed by the Indian Parliament, and consequently, General Insurance business was nationalized with effect from 1 January 1973. 107 insurers were amalgamated and grouped into four companies, namely National Insurance Company Ltd., the New India Assurance Company Ltd., the Oriental

Insurance Company Ltd and the United India Insurance Company Ltd. The General Insurance Corporation of India was incorporated as a company in 22 November 1972 as a private company under Companies Act, 1956 in Bombay and received its Certificate for Commencement of Business on 1 January 1973.

The LIC had monopoly till the late 90s when the Insurance sector was reopened to the private sector. But, now there are 23 private life insurance companies in India. Before that, the industry consisted of only two state insurers: Life Insurers (Life Insurance Corporation of India, LIC) and General Insurers (General Insurance Corporation of India, GIC). GIC had four subsidiary companies. With effect from December 2000, these subsidiaries have been de-linked from the parent company and were set up as independent insurance companies: Oriental Insurance Company Limited, New India Assurance Company Limited, National Insurance Company Limited and United India Insurance Company.

IRDA:-INSURANCE REGULATORY AND DEVELOPMENT AUTHORITY

IRDA or Insurance Regulatory and Development Authority of India is the apex body that supervises and regulates the insurance sector in India. The primary purpose of IRDA is to safeguard the interest of the policyholders and ensure the growth of insurance in the country. When it comes to regulating the insurance industry, IRDA not only looks over the life insurance, but also **general insurance** companies operating within the country.

Functions of IRDA :

- To protect the interest of policyholders at the time of claims, issuance of the policy, and cancellation of the policy is the ultimate motive. Hence, it monitors that no insurance company can deny the claim on their free will unless it falls beyond the scope of the cover.
- To prevent any misdeed, it calls for both annual or need-based audit, conduct investigation, call for information from either the insurance companies or intermediaries.
- Regulate the rates and terms offered by the insurance companies to bring equality for the customers.
- If there arises any dispute between the insurer and the policyholder, then IRDA will step in to provide a resolution.
- To prevent different insurers quote rates as per their convenience, they bound the major risks to the Tariff Advisory Committee. After this, the insurers keep in mind the percentage of premium income they would need to fund the professional organizations.
- Keeping in mind the development of both the urban and the rural sector, IRDA bounds the insurers with a minimum percentage to carry both life and non -life business

Role of IRDA in the Insurance Sector in India

At one point of time, some insurance companies used to deny coverage to their policyholders. The basis of the denial was either their choice of business to underwrite or was their understanding of good risk and bad risk. To regulate the market and minimize any sort of partial acts, the IRDA was established.

Like the banking system in India is regulated as per the guidelines of RBI. It restricts the bankers to not behave unruly with the account holders. The banking institutes are allowed to offer loans and interest as per the rates pre-defined by RBI. It leaves no room for the monopoly to take over which in turn works best for the masses. Financial Institutes like banks and insurance companies will be successful in our democracy until market practices are for the majority and not just for fraction of people.

IRDA on the same lines of industrial practice plays a vital role like

- Ensures and encourages the systematic growth of the insurance industry just to benefit the common people who invest in policies to look for safety.
- Protects the interest of the policyholders so that they trust the system.
- Promote high standards of integrity and fair dealings in the market.
- Resolve disputes of all kinds and speed up claim settlement.
- Set standards and conduct vigilance to check for scams or frauds.

The Indian economy is growing which further promotes the entrance of new insurance players in the market. To keep the pace of growth even-handed, IRDA needs to maintain standards of quality. It will further contribute to strengthening the financial capacity of a country as a whole.

Unit –IV

LIFE INSURANCE

2.1 Introduction: Life Insurance is one of the most popular and important forms of insurance. Life insurance is insurance on human Life. Man's life being uncertain, he is prone to meet immature death, accident, disability, old age etc. In such conditions life insurance provides the best source to the family by providing funds to lessen the economic uncertainty. The life insurance is taken out with double purposes - protection against the risk and investment. Life Insurance being a contract for a long period, it provides protection and acts as a sure investment. Life Insurance is a contract for payment of a sum of money to the person on the happening of the event insured against. Usually the insurance contract provides for the payment of an amount on the date of maturity or at specified dates at periodic intervals or at the unfortunate death if it occurs earlier. In other words, it is the civilized world's partial solution to the problems caused by death. In short, life insurance helps in two ways: premature death, which leaves dependent families to fend for itself and old age without visible means of support.

2.2.1 Meaning and Nature Life Insurance

The concept of life insurance is based on two fundamental elements of 1) 'Death Cover' and 2) 'Survival Benefits'.

According to the former element, in the event of the death of an insured within the specific period, his family members are liable to get the promised amount by the insurance company and according to the later element, if the insured survives after the specific period the insurance company undertakes to pay him amount of Insurance. Though, life insurance can not avoid one's death, at least it tries to minimize the economic burden, to some extent, of the family members by taking risk of the insured.

Definitions Insurance Act 1938 - "Life Insurance business means the business of effecting contracts of insurance upon human life, including any contract whereby the payment of money is assured on death (except death by accident only) or the happening of any 36 contingency dependent upon human life and any contract which is subject to payment of premiums for a term dependent on human life."

J.H. Magee - "Life insurance contract embodies an agreement in which broadly stated, the insurer undertakes to pay a stipulated sum of money upon the death of the insured' or at some designated time to a designated beneficiary"

R.S. Sharma – " Life insurance contract may be defined whereby the insurer, in consideration of a premium paid either in lump sum or in periodical installments , undertakes to pay an annuity or a certain sum of money either on death of the insured or on the expiry of certain number of years." "A contract of life insurance is that in which one party agree to pay a given sum of money upon the happening of a particular event contingent upon duration of human life in consideration of the immediate payment of a smaller sum or certain equivalent periodical payments by another. "

1.2.2 Nature of Life Insurance -

1. Life Insurance is a Contract - Life Insurance is a contract between two parties i.e. insurer and insured by which the insurer, in consideration of insurance premium, agrees to pay the certain amount to the insured against certain probable unexpected incidence. In life insurance, insurance company pay

certain sum of money on the death of the insured person or if insured is alive, paid to them the amount of premium with interest and bonus.

2. Cooperative device - All for one and one for all is the basis for cooperation. A life insurance is a good example of cooperative device to spread the loss caused by a specific event. Insurance is based on the principle of mutual help. Under this arrangement persons exposed to same risks come together and create a common fund and compensate the person who has actually suffered the loss. In other words, life insurance is a cooperative mechanism wherein large number of persons comes together. They have similar risk and share the loss by contributing a small amount in the form of 37 premium. Thus, it is cooperative device which is helpful to society to protect the family, if the policy holder dies before maturity date of the policy.

3. Large number of Person – Life insurance mechanism works on the principle of large number of insured persons. Insurance is spreading of loss over a large number of persons. The persons involved in life insurance collect the amount in the form of premium and such amount is paid to persons who actually suffer the risk.

4. Sharing of risk - Life insurance is a social and economic device. It share the financial loss occurred caused by unexpected incidence between the public who are exposed to risk. The death of the insured, illness, disable due to accident etc. may cause a tremendous loss to the insured. Under life insurance mechanism this risk shared amongst all the insured in the form of premium. Life insurance provides financial help to dependents of insured, if he dies before the maturity date.

5. Uncertainty - The event to be insured must be uncertain and unforeseen. However, In life insurance even though death of insured person is certain its timing is uncertain. Hence life insurance is also a legal contract.

6. Payment of claim - In case of life insurance, the contingency i.e. death or the maturity of the policy will certainly happen. In such case insurer is liable to pay the policy amount on the death of the insured or on the expiry of the term whichever is earlier. If insured dies before date of maturity of the life policy, sum assured will receive by the legal heir or nominee of the policy holder.

7. Insurable interest – The interest of the insured in the subject matter of insurance is called as insurable interest. In the life insurance the life of the person is the subject matter. In life insurance contract the insurable interest should exist at the time of taking insurance. Husband and wife, other relatives e.g. father, mother, independent son or daughter etc., partners, Debtors and Creditors, trustee etc. can hold Insurable Interest.

8. Life insurance is not an Indemnity contract- Though life insurance is a contract, it is not a contract of indemnity. Because the loss caused by the death cannot be calculated in terms of money nor money is a compensation for loss of one's life. Life insurance contracts are an exception to the principle of indemnity. He can also take life policies of any amount as the loss of death can not be measured in monetary terms.

9. Protection to family - Life insurance protects the families from the economic hardship, if insured dies before the maturity of policy. It is the basic principle of the life insurance to save a person from uncertain future incidents such as premature death, old age, accident etc.

10. Life Insurance is not a charity but business - Life insurance is a business which provides financial protection to the life of insured from unforeseen event. However, insurance company collect the amount of premium as a consideration form insured for the cost of risk so covered. Charityis a payment without claiming anything in return.

11. Investment of Saving – It is the differential characteristic of the life insurance. Life insurance combines the element of protection and investment. There is no any other mechanism or device, which involves both the elements of protection and investment. Though the insured is interested in protecting his life against risk of premature death, he also wants to save or invest some amount for fulfillment of future needs . Life insurance provides assurance to meet future financial needs particularly arises due to old age, premature death or accident or any unforeseen events.

The features or characteristics of the Life Insurance

1) The life insurance is a contract between the insured and the insurer (Insurance Company). Hence, all the provisions of Indian Contract Act are applicable to it.

2) The life insurance promises to pay a certain amount on occurence of death, physical disability and such event related human life.

3) Life insurance is a contract that promises to pay certain, assured amount. Because no one can evaluate human life, this is not contract of indemnity.

4) It is taken out with two objectives - of protection and investment.

5) By purchasing life insurance, one can make provisions for higher education of his sons and daughters or their marriages.

6) It could be purchased to meet some special needs, such as expenditure incurred on medical treatment, compensation for loss of Income due to illness, physical disability and accident.

7) By purchasing a life insurance policy, one can make provisions for repayment of bank loan or other loans after one's death, saving one's family members from the burden of repaying it.

8) Along with the provisions of Indian Contract Act, the principle of utmost good faith and the principle of insurable interest are also applicable to Life Insurance Contract.

9) Life insurance policy being a personal property of an insured, it can be sold or mortgaged or gifted out.

10) It has a facility of nominating the insured's heir. It is to decide to whom the insurance amount be given after the death of the policyholder. The nomination can be done at the time of submitting proposal form or any time the during currency of the policy.

Importance of Life Insurance

The fast growing industrial development and the revolution in transport and communication system, no doubt have brought in prosperity, but at the same time, these advancements have endangered human life tremendously, have created tensions and uncertainty unprecedentally. The activities of the terrorists and extremists, industrial accidents, transport accidents etc have reduced the security in human life. In addition to the above, the floods, earthquakes, hurricanes and such natural calamities and environmental / ecological imbalance have made life much more uncertain. On one hand, the per capital income is rising, but on the other hand, man's income making capacity is getting reduced. A solution on all these, the life insurance has achieved great importance.

The importance of Life Insurance can be explained from the individual's, economy's and in general, the social point of view.

A) From the Individual Person's Point of View Life Insurance is extremely important from the individual person's point of view. No one today can continue one's life free from anxieties without taking life insurance. It is cent percent true that life insurance has no substitute. By discussing some of the distinct **advantages of life insurance, its importance in man's life is enumerated in the following ways.**

i) Family Protection - The life of a family is dependent on the bread - earner, the head of the family. Unfortunately, if he dies at an early age, the very support of the family disappears and the surviving dependents have to face many financial difficulties. At such occasions, life insurance provides funds to them immediately after the death of a policy holder, life insurance therefore, is much superior as compared to any ordinary investment, because it offers full protection to the family members after the death of a policyholder.

ii) Old Age Relief - A person by taking a life insurance policy can make provisions for his old age and may lead a life of comfort and happiness. In the nuclear family system today, there is no certainty about that the sons would take care of their old parents. But, the amount of insurance received in old age will certainly prove a great relief. That would make a person self - reliant.

iii) Compulsory Savings - Taking Life Insurance encourages one to economize and save one's hard-earned money compulsorily. When the income is limited and dependents are many, it becomes very difficult to save regularly. Somehow, if some money is saved, it could be expended by momentary inducement. But when a person purchases a life insurance policy, he can easily continue a long term saving plan, by regular payments of premiums. He gets habituated to control his expenditure by force. This kind of saving is unique one, because it provides security against the risk to life.

iv) Provision to meet children's needs - The life insurance companies issue some schemes by which policy holder can make provisions for meeting the needs of his children, like expenditure of their higher education or marriages etc, In a sense, life insurance provides assistance to a policy holder to educate his children and make their bright careers. The marriage expenditure can be met easily.

v) Provision for special needs - In case of emergency needs of the family, the loans can be obtained on the basis of the security of life insurance policy. For instance, if a person, unfortunately becomes physically disable or meets an accident or falls seriously ill, he will have to be admitted to a hospital where he will have to incur a lot of money on medical treatment. During the time, his earning gets reduced for some time or stops permanently. To meet such huge expenditures, buying a life insurance policy is an ideal way of making provisions for.

vi) Tax Relief - On payment of life insurance premium at certain tax relief is given in the assessment of income tax. For computing income tax, the premiums of life insurance are allowed to be deducted from taxable income. When this tax relief is taken into account, it will be found that the insured actually pays much less than what he has to pay against premiums.

vii) Protection against creditors - By effecting a valid assignment of the policy, the sum assured can be protected against the claims of the creditors of the policyholder. In the event of his death, the person who nominated is entitled to the benefits of the policy, as also a Married Women's Property Act Policy, which protects the interests of the wife and children.

viii) Nomination facility - By this facility the policyholder obtains a right to decide to whom the insurance amount be paid after his death. Hence, the nominee can get the insurance amount very easily.

ix) Provision of repaying debts - The loan borrowed for the purpose of constructing a house or some other purpose would be burdensome for the dependents if a person dies before repaying it. In such condition, he can select the amount of insurance policy equal to loans and by pledging it as security with insurance company / bank can reduce the burden of his dependents.

B) From the Business Point of View Life Insurance serves the business community, like the individual persons, in a various ways.

1) Business Continuation - Life Insurance helps the traders and business partners to avoid possible interruption due to accident and death of one of partners / proprietor or key men and continue their business or before. A sole trader can leave sufficient funds for his business so that after his death his heirs may continue his business without any anxiety. In the same manner, at time of death of a partner, the firm has to pay back his capital, share of goodwill, profit etc. By taking a joint policy on lives of the partners, the problem is solved without putting financial burden on the firm.

2) Insurance of key man - The existence of every business firm depends on some very important persons, technicians, managers, executive directors, etc. Such key-men are responsible, by virtue of their expertise, skill and experience, for the prosperity and development of the firm. Unfortunately, if such a key person dies, it disrupts the work or sometimes the entire business may collapse. Insurance helps the businessman to insure the lives of such key employees and avoid the risks. In case such key employee leaves the business firm, the other able employee could be appointed out of the insurance amount received from the company.

3) Employee Welfare Plans - The business firms have to discharge some responsibilities towards their employees. For example, they have to pay compensation if they met accidents while on work. These are integral parts of social security and labour welfare. The employers can take advantage of life insurance schemes. Usually, group insurance policies are taken, by which the responsibility of paying compensation/other benefits to the employees, is automatically transferred to the insurance company. As the employees are covered under the policies from the risks of death, illness, accident, etc, their sense of gratitude towards the firm increases and they develop respect for it.

4) The Enhancement in Credit Worthiness - When the business firms purchase life insurance policies on the lives of their key - employees, their credit worthiness in banks and other finance institutes enhances. Because, in the event of the death of such employees or their leaving the organizations, the

financial Institutes, banks etc. feel secure, due to the protection provided by life insurance. It does not affect the stability or the economic conditions of the organizations.

5) Facilitates Economic Growth - The role performed by life insurance in the economic growth of a country has been extremely significant. By providing huge funds, the life insurance companies can accelerate the process of economic growth. The mobilization of huge resources and their investment in various productive activities leads to industrialization, creation of better infrastructure, provision of funds to companies in private sector etc. In addition to this, by buying shares and debentures of various companies, the growth of share market also can be accomplished.

6) Social Security - The various schemes implemented by the life insurance companies providing protection to weaker sections of the society, the artisans, farmers, landless labours etc. takes care of some of the social problems such as unemployment, old age, disability, premature death and medical care for the aged. In the absence of life insurance, the victims of these calamities would have become burden on the society. Thus, life insurance helps maintain social security and stability.

Following are the types of life insurance available in India:

- Term insurance
- Term insurance with return of premium
- Unit Linked Insurance Plans
- Endowment plans
- Moneyback policy
- Whole life insurance
- Group life insurance
- Child Insurance Plans
- Retirement Plans

1. Term insurance :- The term insurance plan is one of the most sought-after types of life insurance policies in India. This is one of the types of life insurance policy in India that you can buy for a specific period of 10, 20, 30 or more years, hence the name.

While some other types of life insurance policy offer maturity benefits, term insurance does not. It is one reason why term insurance, being the best insurance policy in India, is comparatively cheaper than other types of life insurance schemes.

Term insurance is pure life cover, unlike other types of life insurance policies which have a saving component. You can also opt for a significant life cover at a lower premium as compared to other types of life insurance policy which are costlier but have built-in saving components.

2. Term Insurance with Return of Premium

A term insurance plan is amongst the **types of life insurance policies** that provides a death benefit but no maturity benefit.

If you live a healthy lifestyle, the probability that you will outlive the best insurance policy in India you have bought also increases. For you, among the many **life insurance types**, a term insurance with return of premium is one of the best insurance policy in India, which also give you maturity benefits.

It is one of the types of term insurance plans that give back the premiums you pay on surviving the policy period. Besides, you can easily calculate premium for term insurance using an online term insurance calculator.

When you calculate premium for term insurance, you get a clear understanding about your unique requirements, explore rider options, and also choose your policy term. Doing so helps you ensure that you are investing in the most suitable types of life insurance policies for yourself and your family.

3. Unit Linked Insurance Plan (ULIP) -

You may face a dilemma in life about choosing between any of the two options – investment or insurance.

A ULIP is one of the types of life insurance policies in India that fulfill both these aspects. Amongst different types of life insurance, it is the one that offers life cover along with investment opportunities. Being one of the types of life insurance, it has a lock-in period of five years, which makes it a long-term investment instrument that comes with risk protection. ULIPs also allow you to balance your funds as per market dynamics.

4. Endowment Policy

Endowment policies are one of the types of life insurance policies that provide you with the combined benefit of life insurance and savings. Along with giving you the life cover, these types of life insurance help you save money regularly over a period to get a lump sum at maturity.
What makes them one of the most useful types of life insurance policies is that they help fulfill long-term goals in life. You will also get the maturity amount if you survive the policy tenure.

Endowment policies, being one of the most appropriate types of life insurance plans, also help you create a financial cushion for your family to meet various financial objectives in life.

5. Moneyback Policy

The purpose of investing in the insurance policy in India for your loved ones can be to create wealth over an extended period. However, most of the types of life insurance do not provide any provision to get funds before their tenure ends. It is where a moneyback policy plays a vital role in solving the problem of liquidity.

As the name suggests, moneyback policies are one of the popular types of life insurance policies in India that give money back regularly. It pays a percentage of the assured sum throughout the policy tenure, unlike other types of life insurance plans that offer no returns till maturity.

Whole Life Insurance

As a life insurance policyholder, you get the benefits depending on the **types of life insurance policies** you have chosen. What distinguishes a **whole life insurance** plan from other **life insurance types** is that it provides insurance coverage to the insured for the entire life, up to 100 years of age.

Typically, the death benefit, under a **whole life insurance**, is payable to the beneficiary in the case of the untimely demise of the policyholder. On the other hand, you are eligible to receive a maturity benefit under a **whole life insurance** policy if you cross 100 years of age.

Another significant feature of such **whole life insurance** plans is that some offer the option to pay premium for the first 10-15 years while you get the benefits for the entire life.

7. Group Life Insurance

Just like group health insurance, group life insurance is one of the **types of life insurance policies** that covers a group of people under one master policy. Such **life insurance types** are generally provided as part of an employment benefit.

A unique feature of these types of life insurance products is that you will get the insurance cover if you remain a part of the group. It is different from the individual types of life insurance plans in which the coverage continues throughout the chosen policy tenure.

8. Child Insurance Plans

When it comes to **life insurance types**, a child plan is an investment+insurance plan that helps you meet your child's financial needs. A child insurance plan will help you create wealth for your child's future needs like education.

You can start investing in these plans from the birth of your child. You get the flexibility of investing your hard earned money into several funds on the basis of your financial condition and goals in mind.

9. Retirement Plans

Retirement Plans are amongst the **types of life insurance policies** that provides financial security and help you with wealth creation after your retirement. With Retirement Plan, you will get a sum of money as pension in the vesting period.

In case of your untimely demise during the policy term, your nominee will get the death benefits. Retirement Plans comes with death benefit as well as vesting benefit providing protection to you and your family members.

UNIT-V

Introduction :

The insurance segment in India is divided into two categories – life insurance and general insurance. While life insurance policies cover the financial loss suffered due to loss of life, general insurance policies cover the financial loss suffered due to the loss of an asset. General insurance, therefore, covers the loss of economic value of assets or the financial loss suffered due to specific contingencies. General insurance has different types of plans, each of which is designed to cover specific risks. So, let's understand the concept and the types of general insurance plans in India.

General Insurance :-

General insurance is the insurance of assets, financial assets included. If, due to a contingency which is covered under the plan, there is an economic loss, the loss is compensated by general insurance policies.

Advantages of general insurance plans –

General insurance plans are beneficial because of the following reasons –

- The plans cover financial losses and compensate you for the losses that you suffer. As such, general insurance plans provide you financial security even in the case of contingencies
- In some cases, general insurance plans are mandatory by law. For instance, motor insurance plans are mandatory as per the Motor Vehicles Act, 1988. Similarly, if you are travelling to Schengen countries, you mandatorily need a valid overseas health insurance plan. When you buy such mandated plans, you fulfil the legal obligation and save yourself from violation offence
- General insurance plans help in protecting your savings in emergency situations. You can, therefore, use your savings to fulfil your financial goals
- Health insurance plans, which are a type of general insurance plan, allow you tax benefits. The premiums paid for such plans are allowed as a deduction under Section 80D. This deduction helps in lowering your taxable income which, in turn, lowers your tax liability and helps you save tax.

Types of general insurance plans

There are a lot of general insurance plans available in the market. However, the popular and the most important ones are as follows –

Health insurance

Health insurance plans cover the medical expenses which you incur if you fall ill or are injured and need medical assistance. Since the cost of medicine is very high, health insurance plans prove very beneficial. They pay for the medical expenses thereby saving your finances from the strain of the costs incurred on your treatments.

Features of health insurance plans

Here are some of the common features of health insurance plans –

- Health plans can be taken to cover yourself as well as your family members
- Expenses incurred on room rent, surgery, nurse's fees, doctor's fees, ambulance, day care treatments, etc. are all covered under health insurance plans
- The premiums paid are allowed as a deduction. You can claim a deduction of up to INR 1 lakh by paying health insurance premiums for yourself, your family and dependent parents.
- There are different types of health insurance plans available in the market. These include the following –
- Individual health plans which cover a single individual

- Family floater plans which cover the whole family
- Senior citizen plans which cover senior citizens
- Covid-19 specific health insurance plans
- Critical illness plans which cover specified critical illnesses
- Disease specific plans for specific diseases
- Top-up and super top-up plans for supplementing an existing coverage
- Hospital cash plans which pay a daily benefit in case of hospitalization
- **Motor insurance**
  Motor insurance plans are general insurance plans for vehicles. These plans are mandatory as per law and have to be bought for every vehicle so that the vehicle is allowed to run on Indian roads.

Features of motor insurance plans

- There are two types of policies available in the market – third party liability and comprehensive
- Third-party plans are legally mandatory while comprehensive plans are voluntary
- Third-party plans cover only the financial liability suffered if you harm any individual or third party property
- Comprehensive plans also cover the damages suffered by your vehicle itself
- There are different motor insurance policies covering cars, two-wheelers and commercial vehicles

Travel insurance

Travel insurance plans are those which cover financial emergencies that you face when you are travelling to another place. These plans, therefore, cover your trips against unforeseen emergencies.

Features of travel insurance plans

- Travel insurance plans can be of the following types –
- International travel insurance plans
- Domestic travel insurance plans
- Student travel insurance plans
- Senior citizen travel insurance plans
- Single trip policies
- Annual multi-trip policies
- Coverage under travel insurance plans include the following common benefits –
- Medical emergencies
- Medical evacuation and repatriation
- Loss of checked-in-baggage
- Delay of checked-in baggage
- Loss of passport
- Personal accident
- Third-party liability
- Trip cancellation or curtailment
- The policy covers you for the duration of your trip
- You can also cover family members going on a trip with you under the same plan

Home insurance

Home insurance plans cover the financial losses that you suffer in case of your home and/or its contents are damaged. Home insurance policies, therefore, provide financial coverage against natural and man-made disasters which cause a loss to your house property.

Features of home insurance

- There are three types of home insurance policies. They are as follows –
- Structure insurance which covers the structure of your home
- Contents insurance which covers the contents of your home
- A comprehensive policy which covers both structure as well as the contents of your home
- The policy covers natural calamities like earthquakes, floods, storms, cyclones, etc.
- Man-made calamities are also covered like fire, theft, riots, etc.
- The policy can be taken on a replacement value clause or market value clause

Fire insurance

Fire insurance policies cover the damages caused by fire and other related perils. The policy covers damages suffered by property or specified assets.

Features of fire insurance plans

- The policy covers the cost of repairs or replacement of the insured asset when it is damaged by fire or related perils
- There are different types of fire insurance policies which include the following –
- Valued policy
- Floating policy
- Specific policy
- Comprehensive policy, etc.
- A fire insurance plan also covers damages suffered due to lightning, floods, storms, cyclones, inundation, impact damage, missile testing operations, etc.
- If any third party property is damaged due to fire or other covered perils, the policy would cover such losses too
- There are various extensions which are available under fire insurance plans. These extensions come at an additional premium. You can add as many extensions that you like to enhance the coverage.