SYLLABUS

Class – B.Com. II Year (Plain)
Subject – Banking & Insurance

UNIT – I	Principles of Banking: Definition of Bank , Creation of Money: Present Structure of Commercial Banks in India Principals of Management in Banks: Managerial Functions in Bank Indian Banking System features, Classification of Banking Institutions. Reserve Bank of India Functions, Control of Credit By RBI, Power of RBI.
UNIT – II	Management of Deposits and Advances, Deposit Mobilization, Classification and Nature of Deposit Accounts, Advances, Lending Practice, Types of advances. Investment Management: Nature of Bank Investment, Liquidity and Profitability. Cheques, Bills and their Endorsement, Government Securities. Procedure of E- Banking.
UNIT III	Insurance- Meaning, Need, Types, Functions and Principles. IRDS its function and Importance, Insurance as Social Security Tool. Insurance and Economic Development.
UNIT IV	Life Insurance- Introduction, Need, Importance, Elements of Contracts and Life Insurance Contract. Settlement of life Insurance Claims.

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.

Cretion of Money Banks:

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

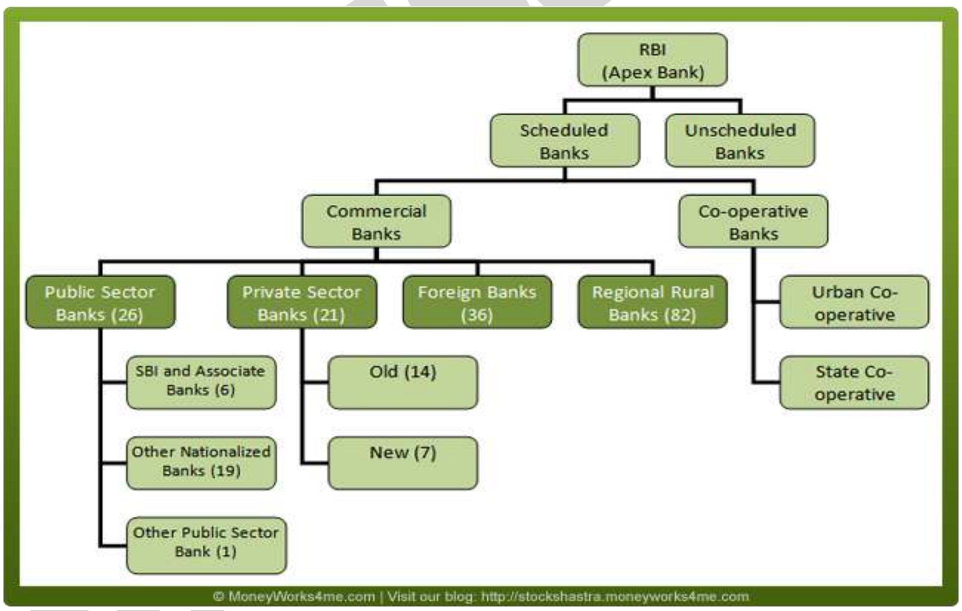
While granting loans to the borrowers, the bank does not handover the entire cash to him but credits the amount of the loan in his bank account. The borrower has a right to issue or draw cheques against it as and when he needs. According to Hartley Withers, "Every loan crates a deposit."

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:

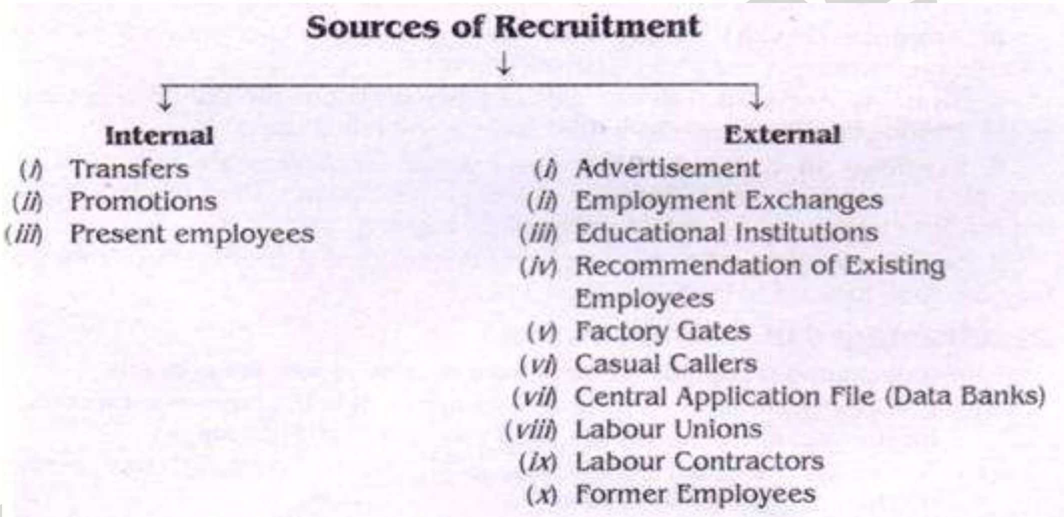
1. To attract people with multi dimensional skills and experiences that suits the present and future organizational strategies.
2. To induct the outsiders with a new perspective to lead the company
3. To infuse fresh blood at all levels of the organization.
4. To develop an organizational culture that 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.

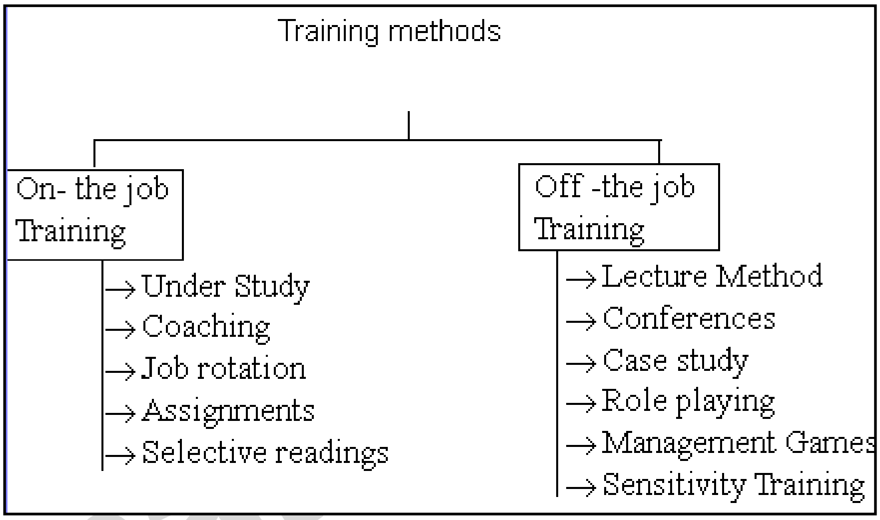
e) Business Alliances:
Business alliances like acquisition, mergers and takeovers help in getting human resources. In addition, the companies do also have alliances in sharing their human resources on ad-hoc basis.

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 know 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 mehod 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 (currently Raghuram Rajan), 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

MANAGEMENT OF 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.

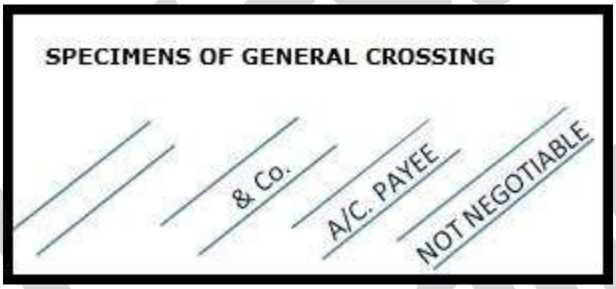
Crossing is a direction to the banker not to pay the cheque across the counter but to pay to a bank only or to particular bank in an account with the bank. Thus crossing provides a protection and safeguard to the owner of the cheque as by securing payment through a banker; it can easily be detected to 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:

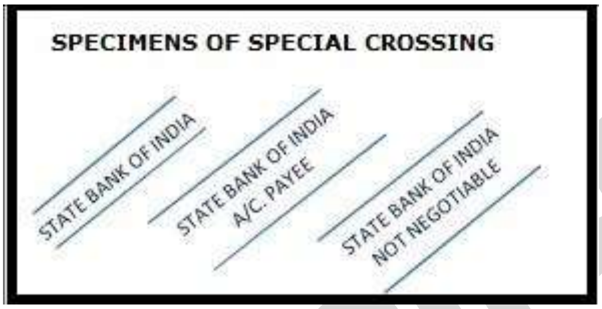
To cross a cheque, two transverse parallel lines are drawn on the left hand corner of the cheque. It is also usual to write the words "& Co", in between these two lines. However, it is not necessary to write these words. A crossing is a direction to the paying banker not to pay the money to the holder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

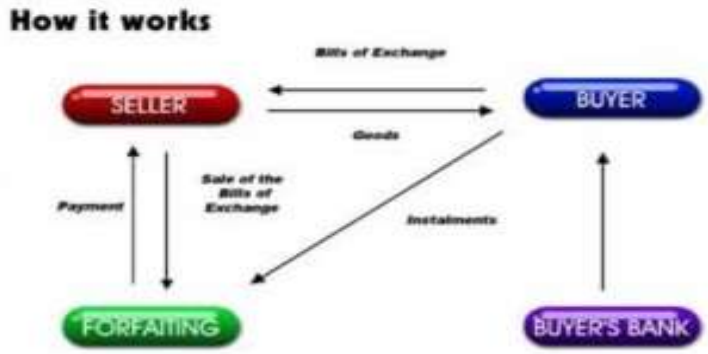
vii. In case a bill of exchange is not presented for payment, the drawer is discharged from his liability. Failure to present the cheque discharges the drawer, only when he has suffered any loss due to the failure of the holder to present the cheque for payment within a reasonable time of its issue. 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

MEANING OF INSURANCE

Insurance is one of the ways that businesses and individuals reduce the financial impact of a risk occurring – by paying a premium to an insurance company, the risk is in effect transferred from the client to the insurer, meaning the client can focus on their business or life, The UK insurance market is the third largest in the world.

DEFINITION OF INSURANCE

General Definition

Insurance interest is a person's legally recognised relationship to the subject matter of insurance that gives them the right to effect insurance on it. Since the relationship must be a legal one, a thief in possession of stolen goods does not have the right to insure,

The term "insurance" has been outlined by totally different specialists on the topic. The views expressed by them through numerous definition are classified into the subsequent 3 classes for the convenience of the study:

Functional Definition-

Within the words of D.S. Hansell, "Insurance could also be outlined as a social device providing monetary compensation for the consequences of misfortune, the payments being made up of the accumulated contributions of all parties taking part within the theme.

How its Arises

Insurable interest arises in variety of circumstances, which may be considered under the following headings:

Insurance of the Person: Everyone has an insurable interest in his own life, limbs, etc. One may insure the life of one's spouse. Further, one may insure the life of one's child or ward(in guardianship) who is under 18 years of age, and a policy so effected will not become invalid upon the life insured turning 18.

Insurance of Property: (physical things) the most obvious example arises in absolute ownership. Executors, administrators, trustees and mortgagees, who have less than absolute ownership, may respectively insure the estate, the trust property and the mortgaged property.

Insurance of Liability: everyone facing potential legal liability for their own acts or omissions may effect insurance to cover this risk (sometimes insurance is compulsory), such liability being termed 'direct liability' or 'primary liability'.

Insurance of Legal Rights: any one legally in a position of potential loss due to infringement of rights or loss of future income has the rights to insure against such a risk. Example include landlords insuring against loss of rent following a fire.

When is It Needed?

Effect of an assignment of the insurance contract: with an effective assignment of a policy (or contract) from the assignor (original policy holder) to the assignee (new policy holder), the interest of the assignor in the contract passes wholly to the assignee to the effect that when an insured event occurs afterwards, the insurer is obliged to pay the assignee for his loss , not that suffered by the assignor, if any.

Effect of an assignment of the right to insurance money: (sometimes simply referred to as an assignment of policy Proceeds) Assignment of policy proceeds will have an effect on both losses that have arisen and those that may arise. An assigned policy remains to cover losses suffered by the assignor, not those by the assignee, although it is now the assignee (instead the of the assignor) who has the who has the right to sue the insurer to recover under the policy.

Necessity for insurable interest: With the assignment of the insurance contract, both the assignor and the assignee need to have insurable interest in the subject matter of insurance at the time of assignment; otherwise the purported assignment will not be valid.

Necessity for insurer's consent: An assignment of the right to insurance money requires no consent from the insurer, irrespective of the nature of the insurance contract concerned. But the position ins not that simple with the assignment of the insurance contract.

Assignment of benefits as opposed to obligations: *Assignment does not have the effect of transferring the assignor's obligations under the insurance contract to the assignee. Such a transfer requires the insurer' consent.*

Life Insurance Corporation of India (LIC):

Aims:
Life Insurance Corporation of India has come into force with the following aims:

1. To assure full protection to the policyholder.
2. To encourage& mobilize public savings.
3. Effective utilization of those savings in different forms of investments for national & economic development
4. To create liquidity position in public.
5. To motivate saving habits in public.
6. Provisions for old age and tax concession.

OBJECTIVES:

1. To study the patterns of growth and development of life insurance industry in India during a ten-year period (2005to 2014) of insurance liberalisation and also opening up of the insurance to the private sector;
2. To identify, select and analyze the variables determining the growth and development of life insurance industry in India during the study period;
3. To suggest suitable measures, wherever necessary to the policymakers concerned for improving their performance, productivity and profitability.
4. To know working aspects of LIC
5. To evaluate the various aspects related to insurance busies like sum assured, Premium received, Claim, claim settlement etc.
6. To understand the organisational structure of LIC.

DISTINCTION BETWEEN ASSURANCE AND INSURANCE

The terms, "Assurance" and "Insurance" are normally employed in insurance contracts. On the historical purpose of reading, the word 'Assurance is a lot of older employed in every kind of 40 insurance contracts by the tip of the sixteenth century. But, from the year 1826, this term is employed to point life assurance solely and therefore the word 'Insurance' for all different styles of insurance like marine, fire, etc. This is often as a result of that in life assurance, there's associate degree assurance from the insurance firm to create payments of the policy either on the maturity or on death. Thus, the word 'Assurance, indicates certainty. On the opposite hand, the word insurance is employed against In these indemnity insurance, like insurance, marine insurance, etc. In these styles of insurance, the insurance, the insurance firm is prone to indemnity solely just in case of loss to property or merchandise, otherwise not. In brief, the variations, between the 2 terms are given within the following table below.

Difference between Assurance and Insurance (Or life assurance and Indemnity Insurance)

S.N.	Basis of difference	Assurance	Insurance
1	Scope	This term is used only in life insurance and therefore the scope is comparatively limited.	This term is used for all other types of insurance therefore the scope is wider then assurance.
2	Element of Investment	This element is present in here as there is certainty of receiving payment either on a date or the maturity of the policy.	Insurance lacks this element as there is no certainty of receiving payment.
3	Certainty of	There is certainty of receiving payment on death or maturity of policy in assurance.	There is no certainty of receiving payment insurance but the amount is paid only in the case of loss of the property insured.
4	Receiving Payment of Renewal policy	Assurance does not provide such facility.	The life insurance contract remains continue and will not lapse unless the premium is regularly paid.
5	Certainty of Event	There is certainty of event that it will happen sooner or later.	There is no certainty of the event insured against may happen or not.
6	Insured Sum	Under assurance, insurance sooner or later.	Under this, the policy amount is restricted to the market value of an insured asset not more than that.

Insurance Regulatory and Development Authority (IRDA) Act:

IRDA Act was passed by parliament in December'1999 and it received president approval in January'2000. The main aim of the authority is **"to protect the interest of holders of Insurance policies to regulate, promote and ensure orderly growth of Insurance industry & for matters connected therewith or incidental thereto."** Under this Act, Controller of Insurance under Insurance Act 1398 was replaced by newly established authority called Insurance Regulatory and Development Authority (IRDA).

Objectives of IRDA:

- To promote the interest and rights of policy holders.
- To promote and ensure the growth of Insurance Industry.
- To ensure speedy settlement of genuine claims and to prevent frauds and malpractices
- To bring transparency and orderly conduct of in financial markets dealing with insurance.

Functions and Duties of IRDA:

Section 14 of IRDA Act,1999 lays down the duties and functions of IRDA:

- It issues the registration certificates to insurance companies and regulates them.
- It protects the interest of policy holders.
- It provides license to insurance intermediaries such as agents and brokers after specifying the required qualifications and set norms/code of conduct for them.
- It promotes and regulates the professional organisations related with insurance business to promote efficiency in insurance sector.
- It regulates and supervise the premium rates and terms of insurance covers.
- It specifies the conditions and manners, according to which the insurance companies and other intermediaries have to make their financial reports.
- It regulates the investment of policyholder's funds by insurance companies.
- It also ensures the maintenance of solvency margin (company's ability to pay out claims) by insurance companies.

Role of Insurance Companies in Economic Development of India:

1. Saving and Insurance:
Saving involves refraining from present consumption. The investment can take place only when there are savings. The relationship between. saving, investment and growth of GDP can be explained as:

G = S / K. Where G – Rate of GDP growth, S – Saving Ratio and K – Capital output ratio.

Insurance companies lead to economic development by mobilizing savings and investing them into productive activities. Indian insurance companies are able to **mobilize long-term savings** to support economic growth and also facilitate economic development by providing insurance cover to a large segment of our people as well as to business enterprise throughout India.

2. Capital Formation and Insurance:

Capital formation maybe defined as **increase in capital stock** of the country consisting of plant, equipment, machinery, tools, building, means of transport, communication, etc. The process of capital formation envisages three essential steps. These are:

a. **Real saving**: Mobilization of saving through financial and non-financial intermediaries to be placed at the disposal of investor.

b. **The act of investment**: The contribution of insurance companies in the process of capital formation appears at all these stages. Insurance services act as a tool to mobilize saving, function as financial intermediary and at times also indulge in direct investment. Also govt. has made regulations under which every insurer carrying on business of life insurance shall invest 25% of funds in Govt. securities and not less than 15% in infrastructure and social sector.

The importance of Indian insurance industry is gauged by the fact that annual amount of investible funds of LIC and GIC and its subsidiaries amounted to over Rs. 20,000 crore and Rs. 10,000 crore are invested in nation building activities, housing and other infrastructural areas.

c. **Increased Employment**: Prior to the liberalization of insurance sector in India, the opportunities for employment were limited with the LIC of India as sole employer. While some of the professionals left the country looking for opportunities elsewhere, those who remained, worked within the confines and constraints of public sector monopoly. This has further constrained the opportunities for exposure to the development in rest of the world. Liberalization and the opening up of sector to private players has now created a vast opportunity for employment.

3. Obligation to Rural and Social Sector:

In India, the insurance companies are required to fulfill their obligation towards rural and social sector. For this, Life insurers are required to have 5%, 7%, 10%, 12%, 15% of total policies in first five years respectively in rural sector. Like wise General Insurers are required to have 2% 3% and 5% thereafter of total gross premium income written in first five financial years respectively in rural sector.

4. Insurance as financial intermediary:

Financial intermediaries perform the function of channelizing saving into domestic investment. They facilitate efficient allocation of capital resources, which in turn improve productivity and economic efficiency which result in reduced capital output ratio. The insurance companies perform extremely useful function in economy as financial intermediaries. These are as follows:

a. **Reduction in transaction cost**: Insurers help in reducing transaction cost in economy by collecting funds from policyholders and investing the same in different projects scattered over different regions. It is a specialized and time consuming job.

b. **Creating liability**: The policyholders, in case of loss, are not required to wait for a long period for the amount of claim. It improves their liquidity.

c. **Facilitates Economies of scale in Investment**: Insurers are in the position of financing large projects, railways power projects, etc. These large projects create economies of scale, facilitate technological innovation and specialization and thus promote economic efficiency and productivity.

5. Promotes Trade and Commerce:

The increase in GDP is positively correlated to growth of trade and commerce in economy. Whether it is production of goods and services, domestic or international trade or venture capital projects, insurance dominates everywhere. Even banks demand insurance cover of assets while granting loans for purchase of assets. Thus insurance covers, promotes specialization and flexibility in the economic system that play contributory role in healthy and smooth growth of trade and commerce.

6. Facilitates efficient capital allocation:

Insurance provides cover to large number of firms, enterprises and businesses and also deploy their funds in number of investment projects. The vast pool of knowledge and expertise so gained enable them to distinguish between productive and high return projects. Therefore, they promote efficient and productive allocation of capital resources, which in turn lead to increased productivity and efficiency in the system.

7. Encouraging Financial Stability and Reducing Anxiety:

Insurer promotes financial stability in economy by insuring the risks and losses of individuals, firm and organizations. Because of uninsured large losses, firm may not be able to compensate for it leading to its insolvency which may cause loss of employment, revenue to supplier & Govt., loss of products to customer, etc. Moreover, it relieves the tensions and anxiety of individuals by securing the loss of their lives and assets.

8. Reducing Burden on Govt. Exchequer:

Insurance companies, particularly life insurers provide a variety of insurance products covering needs of children, women and aged etc under social security network and thereby reduce the burden on Govt. exchequer in providing these services. This Govt., saves expenditure on these items and amount can be utilized for more productive projects. To conclude, we can say that insurance companies play an important role in economic development of country.

.Unit IV

Life Insurance

Introduction:

Life insurance provides a monetary benefit to a decedent's family or other designated beneficiary, and may specifically provide for income to an insured person's family, burial, funeral and other final expenses. Life insurance policies often allow the option of having the proceeds paid to the beneficiary either in a lump sum cash payment or an annuity. In most states, a person cannot purchase a policy on another person without their knowledge.

Annuities provide a stream of payments and are generally classified as insurance because they are issued by insurance companies, are regulated as insurance, and require the same kinds of actuarial and investment management expertise that life insurance requires. Annuities and pensions that pay a benefit for life are sometimes regarded as insurance against the possibility that a retiree will outlive his or her financial resources. In that sense, they are the complement of life insurance and, from an underwriting perspective, are the mirror image of life insurance.

Certain life insurance contracts accumulate cash values, which may be taken by the insured if the policy is surrendered or which may be borrowed against. Some policies, such as annuities and endowment policies, are financial instruments to accumulate or liquidate wealth when it is needed.

Need of Life Insurance:

1. **Life Insurance fulfils the needs of a person**:

The needs of a person are divided into (A) Family needs, (B) Old-age needs, (C) Re-adjustment needs, (D) Special needs, (E) The clean-up needs.

(A) Family Needs: Death is certain, but the time is uncertain. So, there is uncertainty of the time when the sufferings and financial stringencies may be fall on the family. Moreover, every person is responsible to provide for the family.

It would be a more pathetic sight in the world to see the wife and children of a man looking for someone more considerate arid benevolent than the husband or the father, who left them unprovoked.

Therefore, the provision for children up to their reaching earning period and for widow up to long life should he made. Any other provision except life insurance will not adequately meet this financial requirement of the family. Whole life policies are the better means of meeting such requirements.

(B) Old-age needs: The provision for old-age is required where the person is surviving more than his earning period. The reduction of income in old-age is serious to the person and his family.

If no other family member starts earning, they will be left with nothing and if there is no property, it would be more piteous state. The life insurance provides old age funds along with the protection of the family by issuing various policies.

(C) Re-adjustment Needs: At the time of reduction in income whether by loss of unemployment, disability, or death, adjustment in the standard of living of family is required. The family members will have to be satisfied with meager income and they have to settle down to lower income and social obligations.

Before coming down to the lower standard and to be satisfied with that, they require certain adjustment income so that the primary obstacles may be reduced to minimum. The life insurance helps to accumulate adequate funds. Endowment policy anticipated endowment policy and guaranteed triple benefit policies are seemed to be a good substitute for old age needs.

(D) Special Needs: There is certain special requirement of the family which is fulfilled by the earning member of the family. If the member becomes disable to earn the income due to old age or death, those needs may remain unfulfilled and the family will suffer.

(i) Need for Education. There are certain insurance policies, and annuities which are useful for education of the children irrespective of the death or survival of the father or guardian.

(ii) Marriage. The daughter may remain unmarried in case of father's death or in case of inadequate provision for meeting the expenses of marriage. The insurance can provide funds for the marriage if policy is taken for the purpose.

(iii) Insurance needs for settlement of children. After education, settlement of children takes time and in absence of adequate funds, the children cannot be well placed and all the education go to waste.

(E) Clean-up funds: After death, ritual ceremonies, payment of wealth taxes and income taxes are certain requirements which decrease the amount of funds of the family member. Insurance comes to help for meeting these requirements. Multipurpose policy, education and marriage policies, capital redemption policies are the better policies for the special needs.

2. **Uses to business :**

The insurance has been useful to the business society also. Some of the uses are discussed below:

(A) Uncertainty of business losses is reduced: In world of business, commerce and industry a huge number of properties are employed. With a slight slackness or negligence, the property may be turned into ashes. The accident may be fatal not only to the individual or property but to the third party also. New construction and new establishment are possible only with the help of insurance.

In absence of it, uncertainty will be to the maximum level and nobody would like to invest a huge amount in the business or industry. A person may not be sure of his life and health and cannot continue the business up to longer period to support his dependents. By purchasing policy, he can be sure of his earning because the insurer will pay a fed amount at the time of death.

Again, the owner of a business might foresee contingencies that would bring great loss. To meet such situations they might decide to set aside annually a reserve, but it could not be accumulated due to death. However, by making an annual payment, to secure immediately, insure policy can be taken.

(B) Business-efficiency is increased with insurance: When the owner of a business is free from the botheration of losses, he will certainly devote much time to the business. The care free owner can work better for the maximisation of the profit. The new as well as old businessmen are guaranteed payment of certain amount with the insurance policies at the death of the person; at the damage, destruction or disappearance of the property or goods.

The uncertainty of loss may affect the mind of the businessmen adversely. The insurance, removing the uncertainty, stimulates the businessmen to work hard.

(C) Key Man Indemnification: Key man is that particular man whose capital, expertise, experience, energy, ability to control, goodwill and dutifulness make him the most valuable asset in the business and whose absence will reduce the income of the employer tremendously and up to that time when such employee is not substituted.

The death or disability of such valuable lives will, in many instances, prove a more serious loss than that by fire or any hazard. The potential loss to be suffered and the compensation to the dependents of such employee require an adequate provision which is met by purchasing adequate life-policies.

The amount of loss may be up to the amount of reduced profit, expenses involved in appointing and training, of such persons and payment to the dependents of the key man. The Term Insurance Policy or Convertible Term Insurance Policy is more suitable in this case.

(D) Enhancement of Credit: The business can obtain loan by pledging the policy as collateral for the loan. The insured persons are getting more loans due to certainty of payment at their deaths. The amount of loan that can be obtained with such pledging of policy, with interest thereon will not exceed the cash value of the policy. In case of death, this value can be utilised for setting of the loan along with the interest.

If the borrower is unwilling to repay the loan and interest, the lender can surrender the policy and get the amount of loan and interest thereon repaid. The redeemable debentures can be issued on the collateral of capital redemption policies. The' insurance properties are the best collateral and adequate loans are granted by the lenders.

(E) Business Continuation: In any business particularly partnership business may discontinue at the death of any partner although the surviving partners can restart the business, but in both the cases the business and the partners will suffer economically.

The insurance policies provide adequate funds at the time of death. Each partner may be insured for the amount of his interest in the partnership and his dependents may get that amount at the death of the partner.

With the help of property insurance, the property of the business is protected against disasters and the chance of disclosure of the business due to the tremendous waste or loss.

(F) Welfare of Employees: The welfare of employees is the responsibility of the employer. The former are working for the latter. Therefore, the latter has to look after the welfare of the former which can be provision for early death, provision for disability and provision for old age.

These requirements are easily met by the life insurance, accident and sickness benefit, and pensions which are generally provided by group insurance. The premium for group insurance is generally paid by the employer. This plan is the cheapest form of insurance for employers to fulfill their responsibilities.

The employees will devote their maximum capacities to complete their jobs when they are assured of the above benefits. The struggle and strife between employees and employer can be minimised easily with the help of such schemes.

3. **Uses of society:**

Some of the uses of insurance to society are discussed in the following sections.

(A) Wealth of the society is protected : The loss of a particular wealth can be protected with the insurance. Life insurance provides loss of human wealth. The human material, if it is strong, educated and care-free, will generate more income.

Similarly, the loss of damage of property at fire, accident, etc., can be well indemnified by the property insurance; cattle, crop, profit and machines are also protected against their accidental and economic losses.
With the advancement of the society, the wealth or the property of the society attracts more hazardous and, so new types of insurance are also invented to protect them against the possible losses.

Each and every member will have financial security against old age, death, damage, destruction and disappearance of his wealth including the life wealth. Through prevention of economic losses, instance protects the society against degradation.

Through stabilization and expansion of business and industry, the economic security is maximized. The present, future and potential human and property resources are well-protected. The children are getting expertise education, working classes are free from botherations and older people are guiding at ease. The happiness and prosperity are observed everywhere with the help of insurance.

(B) Economic Growth of the Country: For the economic growth of the country, insurance provides strong hand and mind, protection against loss of property and adequate capital to produce more wealth. The agriculture will experience protection against losses of cattle, machines, tools and crop.

This sort of protection stimulates more production hi agriculture, in industry, the factory premises, machines, boilers and profit insurances provide more confidence to start and operate the industry welfare of employees create a conducive atmosphere to work: Adequate capital from insurers accelerate the production cycle.

Similarly in business, too, the property and human material are protected against certain losses; capital and credit are expanded with the help of insurance. Thus, the insurance meets all the requirements of the economic growth of a country.

(C) Reduction in Inflation: The insurance reduces the inflationary resource in two ways. First, by extracting money in supply to the amount of premium collected and secondly, by providing sufficient funds for production narrow down the inflationary gap.

With reference to Indian context it has been observed that about 5.0 per cent of the money in supply was collected in form of premium.

The share of premium contributed to the total investment of the country was about 10.0 per cent. The two main causes of inflation, namely, increased money in supply and decreased production are properly controlled by insurance business, Insurance Need and Selling.

Features of Life Insurance Contract:

Followings are the features of life insurance contract:

1. Nature of General Contract
2. Insurable Interest
3. Utmost Good Faith
4. Warranties
5. Proximate Cause
6. Assignment and Nomination

In life insurance contract the first three features are very important while the rest of them are of complementary nature.

1. Nature of General Contract

Since the life insurance contract is a sort of contract it is approved by the Indian Contract Act. According to Section 2(H) and Section 10 of Indian Contract Act, a valid contract must have the following essentialities:

1. Agreement (offer and acceptance)
2. Competency of the parties
3. Free consent of the parties
4. Legal consideration
5. Legal objective

1.1 Agreement (offer and acceptance):

An offer or proposal is intimation to another of ones intention to do or to abstain from doing anything with a view to obtaining the assent of that other person to such an act or abstinence. When the person to whom the proposal or offer is made signifies his assent to it, the offer is said to be accepted. The offer and acceptance in life insurance is of typical nature.

1.2 Competency of the Parties:

The essential element of a valid Contract is that the parties to it must be legally competent to contract. Every person is competent to contract who is of the age of majority according to the law, who is of sound mind, and who is not disqualified from contracting by any law. The insurer will be competent to contract if he has got the license to carry on insurance business. Majority is attained when a person completes age of 18 years.

Persons of sound mind can enter into a contract. A person is said to be of sound mind for the purpose of making a contract if at the time when he makes it, he is capable of understanding it and of forming a rational judgment as to its effect upon his interests. A person who is usually of unsound mind, but occasionally of sound mind may make a contract when he is of sound mind. A person usually of sound mind, but occasionally of unsound mind, may not make a contract when he is of unsound mind. So, an intoxicated person cannot enter into a contract.

An alien enemy is disqualified from, and is incapable of entering into contract or enforcing it. When an alien with whom an insurance contract has been entered into becomes an enemy afterwards, the contract is either suspended or terminated as from the declaration of war.

1.3 Free Consent of the Parties:

In life insurance, both parties must know the exact nature of the risk to be underwritten. If the consent is not free, the contract is generally avoidable at the option of the party whose consent was not freely given.

1.4 Legal Consideration:

The presence of a lawful consideration is essential for a legal contract. The insurer must have some consideration in return of his promise to pay a fixed sum at maturity or death whichever may be the case. The consideration need not be money only. It should be anything valuable or to which value may be assigned. It may be interest, right, dividend, etc. The first premium is consideration and subsequent premiums are merely conditions to contract.

1.5 Legal Objective:

The contract would be legal only when the object is legal. The object of a legal life insurance contract is to protect oneself or ones family against financial losses at the death of the insured. The contract is, sometimes, to provide for financial emergencies that may occur in old age. In brief the contract will be lawful only when the objective is legal. The objective will be legal only when there is insurable interest. Without having this interest, the object of the contract would not be legal. It would be wager contract and against public policy.

2. Insurable Interest:

Insurable interest is the pecuniary interest. The insured must have insurable interest in the life to be insured for a valid contract. Insurable interest arises out of the pecuniary relationship that exists between the policy-holder and the life assured so that the former stands to loose by the death of the latter and/or continues to gain by his survival. If such relationship exists, then the former has insurable interest in the life of the latter. The loss should be monetary or financial. Mere emotion and expectation do not constitute insurable interest in the life of his friend or father merely because he gets valuable advice's from them.

General Rules of Insurable Interest in Life Insurance:

- **Time of Insurable Interest**: Insurable interest must exist at the time of proposal. Policy, without insurable interest, will be wager. It is not essential that the insurable interest must be present at the time of claim.
- **Services**: Except the services of wife, services of other relatives will not essentially form insurable interest. There must be financial relationship between the proposer and the life-assured. In other words, the services performed by the son without dependence of his father, will not constitute insurable interest of the father in the life of his son. Vice-versa is not essential for forming insurable interest.
- **Insurable Interest must be valuable**: In business relationship the value or extent of the insurable must be determined to avoid wager contract of additional insurance. Insurance is limited only up to the amount of insurable interest.
- **Insurable interest should be valid**: Insurable interest should not be against public policy and it should be recognized by law. Therefore, the consent of life assured is very essential before the policy can be issued.
- **Legal responsibility may be basis of insurable interest**: Since the person will suffer financially up to the extent of responsibility, the proposal has insurable interest to that extent.
- **Insurable Interest must be definite**: Insurable interest must be present definitely at the time of proposal. Mere expectation of gain or support will not constitute insurable interest.
- **Legal Consequence**: Insurable interest must be there to form legal and valid insurance contract.Without insurable interest, it would be null and void.

3. Utmost Good Faith:

Life insurance requires that the principle of utmost good, faith should be preserved by both the parties. The principle of utmost good faith says that the parties, proposer (insured) and insurer must be of the same mind at the time of contract because only then the risk may be correctly ascertained. They must make full and true disclosure of the facts material to the risk.

4. Warranties:

Warranties are an integral part of the contract, i.e., these are the basis of the contract between the proposer and insurer and if any statement, whether material or non-material, is untrue, the contract shall be null and void and the premium paid by him may be forfeited by the insurer. The policy issued will contain that the proposal and personal statement shall form part of the Policy and be the basis of the contract. Warranties may be informative and promissory. In life insurance the informative warranties are more important. The proposal is expected to disclose all the material facts to the best of his knowledge and belief. Warranties relating to the future may only be statements about his expectation or intention, for instance, the insured promises that he will not take up any hazardous occupation and will inform the insurer if he will take the hazardous occupation.

5. Proximate Cause:

The efficient or effective cause which causes the loss is called proximate cause. It is the real and actual cause of loss. If the cause of loss (peril) is insured, the insurer will pay; otherwise the insurer will not compensate. In life insurance the doctrine of Causa Proxima (Proximate Cause) is not applicable because the insurer is bound to pay the amount of insurance whatever may be the reason of death. It may be natural or unnatural. So, this principle is not of much practical importance in connection with life assurance, but in the following cases the proximate causes are observed in the life insurance, too.

6. Assignment and Nomination:

The Policy in life insurance can be assigned freely for a legal consideration or love and affection. The assignment shall be complete and effectual only on the execution of such endorsement either on the Policy itself or by a separate deed. Notice for this purpose must be given to the insurer who will acknowledge the assignment. Once the assignment is completed, it cannot be revoked by the assignor because he ceases to be the owner of the Policy unless reassignment is made by the assignee in favor of the assignor. An assignee may be the owner of the policy both on survival of the life assured, or on his death according to the terms of transfer. The life policies are the only Policies which can be assigned whether the assignee has an insurable interest or not. The holder of a policy of life insurance on his own life may, either at the time of affecting policy or at any subsequent time before the Policy matures, nominate the person or persons to whom the money secured by the policy shall be paid in the event of his death. A nomination can be cancelled before maturity, but unless notice is given of any such cancellation to the insurer, the insurer will not be liable for any bonafide payment to a nominee registered in the records. When the policy matures, or if the nominee dies, the sum shall be paid to the Policy-holder or his legal representatives

Claim Settlement Process: Death Claim

Step One: Intimation of Claim:

The claimant must submit the written intimation as soon as possible to enable the insurance company to initiate the claim processing. The claim intimation should consist of basic information such as policy number, name of the insured, date of death, cause of death, place of death, name of the claimant etc .Claim intimation form can be availed from nearest branch of the insurance company or/and by downloading it from the company website.

Step Two: Documentation:

The claimant will be required to provide the following documents along with a claimant's statement:

I. Certificate of Death
II. Proof of age of the life assured (if not already given)
III. Deeds of assignment / reassignments (if required)
IV. Policy document
V. Any other document as per requirement of the insurer

For early death Claim, (If the claim has accrued within three years from the beginning of the policy), the following additional requirements may be called for:

I. Statement from the hospital if the deceased had been admitted to hospital
II. Certificate of medical attendant of the deceased giving details of his/her last illness
III. Certificate of cremation or burial to be given by a person of known character and responsibility present at the cremation or burial of the body of the deceased
IV. Certificate by employer if the deceased was an employee

In special cases as per following the poof of death will be different from the standard specification

- In case of an air crash the certificate from the airline authorities would be necessary certifying that the assured was a passenger on the plane.
- In case of ship accident a certified extract from the logbook of the ship is required.
- In case of death from medical causes, the doctors' certificate and/or treatment records may be required.
- If the life assured had a death due to accident, murder, suicide or unknown cause the police inquest report, panchanama, post mortem report, etc would be required.

Step Three: Submission of required Documents for Claim Processing:

For faster claim processing, it is essential that the claimant submits complete documentation as early as possible.

Step Four: Settlement of Claim:

As per the regulation 8 of the IRDA (Policy holder's Interest) Regulations, 2002, the insurer is required to settle a claim within 30 days of receipt of all documents including clarification sought by the insurer. If the claim requires further investigation, the insurer has to complete its procedures within six months from receiving the written intimation of claim.

After receiving the required documents the company calculates the amount payable under the policy. For this purpose, a form is filled in which the particulars of the policy, bonus, nomination, assignment etc. should be entered by reference to the Policy Ledger Sheet. If a loan exists under the policy, then the section dealing with loan is contacted to give the details of outstanding loan and interest amount, which is deducted from the gross policy amount to calculate net payable claim amount. Generally all claim payments would be made through the electronic fund transfer.

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