SYLLABUS

Class –I Years

Subject – Banking and Insurance

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UNIT – II	**Bank Deposits:** Meaning and types, Features of bank accounts Procedure to open and close bank accounts. **Loans and Advances:** Principles to sanction loans and advances. Classification of loans and advances. Procedure to apply for house loan, personal loan, education loan and commercial loan.
UNIT – III	**Insurance:** Historical background of Insurance. Meaning, elements, basic principles and importance of insurance. Kinds of insurance. Regulation of insurance in India. IRDA: Functions and role to regulate insurance in India.
UNIT – IV	**Life Insurance:** Historical background, meaning, objectives, importance, essential elements. Life insurance policy and its types. 'Insurance proposal to policy Procedure. Conditions of Life insurance policies. Claim filing procedure and settlement of claims. Life Insurance Corporation of India: Functions, progress and Evaluation.
UNIT – V	**General Insurance:** Meaning, objectives & importance. Kinds of general insurance and its features. Basic principles of general insurance. Procedure to apply general insurance policies. Claim filing procedure and settlement of claims. **General Insurance Corporation of India:** Functions, progress and structure. Performance of private sector companies in general insurance sector. **Key Word:- Banking, Insurance, Nationalization, Loans and Advances Progress, Regulation,**

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UNIT I

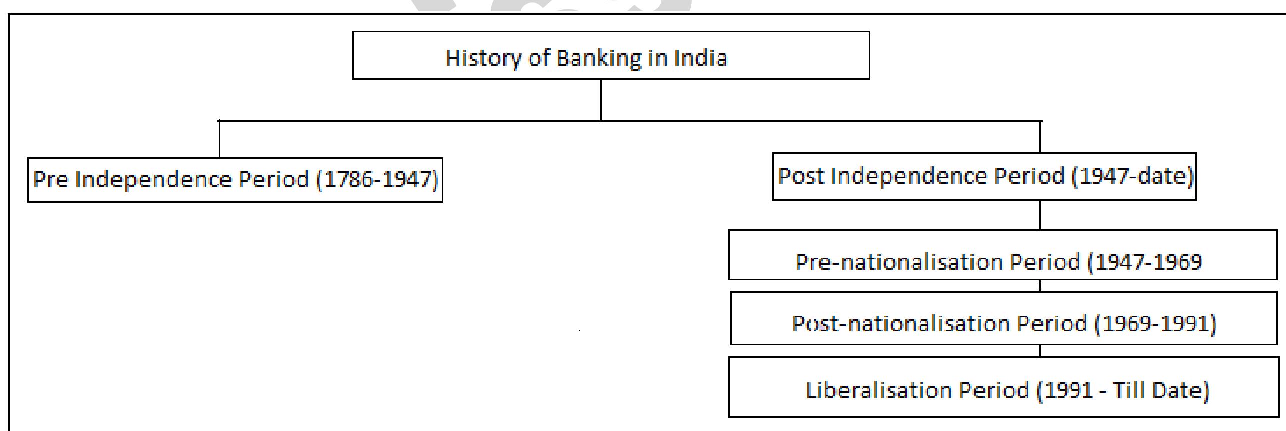
Historical background of banking:

The banking sector development can be divided into three phases:

Phase I: The Early Phase which lasted from 1770 to 1969

Phase II: The Nationalisation Phase which lasted from 1969 to 1991

Phase III: The Liberalisation or the Banking Sector Reforms Phase which began in 1991 and continues to flourish till date



Pre Independence Period (1786-1947)

The first bank of India was the "Bank of Hindustan", established in 1770 and located in the then Indian capital, Calcutta. However, this bank failed to work and ceased operations in 1832.

During the Pre Independence period over 600 banks had been registered in the country, but only a few managed to survive.

Following the path of Bank of Hindustan, various other banks were established in India. They were:

The General Bank of India (1786-1791)

Oudh Commercial Bank (1881-1958)

Bank of Bengal (1809)

Bank of Bombay (1840)

Bank of Madras (1843)

During the British rule in India, The East India Company had established three banks: Bank of Bengal, Bank of Bombay and Bank of Madras and called them the Presidential Banks. These three banks were later merged into one single bank in 1921, which was called the **"Imperial Bank of India."**

The Imperial Bank of India was later nationalised in 1955 and was named The State Bank of India, which is currently the largest Public sector Bank.

Given below is a list of other banks which were established during the Pre-Independence period:

Pre-Independence Banks in India	
Bank Name	**Year of Establishment**
Allahabad Bank	1865
Punjab National Bank	1894
Bank of India	1906
Central Bank of India	1911
Canara Bank	1906
Bank of Baroda	1908

Post Independence Period (1947-1991)

At the time when India got independence, all the major banks of the country were led privately which was a cause of concern as the people belonging to rural areas were still dependent on money lenders for financial assistance.

With an aim to solve this problem, the then Government decided to nationalised the Banks. These banks were nationalised under the Banking Regulation Act, 1949. Whereas, the Reserve Bank of India was nationalised in 1949.

Following it was the formation of State Bank of India in 1955 and the other 14 banks were nationalised between the time duration of 1969 to 1991. These were the banks whose national deposits were more than 50 crores.

Given below is the list of these 14 Banks nationalised in 1969:

1. Allahabad Bank
2. Bank of India

3. Bank of Baroda
4. Bank of Maharashtra
5. Central Bank of India
6. Canara Bank
7. Dena Bank
8. Indian Overseas Bank
9. Indian Bank
10. Punjab National Bank
11. Syndicate Bank
12. Union Bank of India
13. United Bank
14. UCO Bank

In the year 1980, another 6 banks were nationalised, taking the number to 20 banks. These banks included:

1. Andhra Bank
2. Corporation Bank
3. New Bank of India
4. Oriental Bank of Comm.
5. Punjab & Sind Bank
6. Vijaya Bank

Apart from the above mentioned 20 banks, there were seven subsidiaries of SBI which were nationalised in 1959:

1. State Bank of Patiala
2. State Bank of Hyderabad
3. State Bank of Bikaner & Jaipur
4. State Bank of Mysore
5. State Bank of Travancore
6. State Bank of Saurashtra
7. State Bank of Indore

Liberalisation Period (1991-Till Date)

Once the banks were established in the country, regular monitoring and regulations need to be followed to continue the profits provided by the banking sector. The last phase or the ongoing phase of the banking sector development plays a hugely significant role.

To provide stability and profitability to the Nationalised Public sector Banks, the Government decided to set up a committee under the leadership of Shri. M Narasimham to manage the various reforms in the Indian banking industry.

The biggest development was the introduction of Private sector banks in India. RBI gave license to 10 Private sector banks to establish themselves in the country. These banks included:

1. Global Trust Bank
2. ICICI Bank
3. HDFC Bank
4. Axis Bank
5. Bank of Punjab
6. IndusInd Bank
7. Centurion Bank
8. IDBI Bank
9. Times Bank
10. Development Credit Bank

The other measures taken include:

- Setting up of branches of the various Foreign Banks in India
- No more nationalisation of Banks could be done
- The committee announced that RBI and Government would treat both public and private sector banks equally
- Any Foreign Bank could start joint ventures with Indian Banks
- Payments banks were introduced with the development in the field of banking and technology
- Small Finance Banks were allowed to set their branches across India
- A major part of Indian banking moved online with internet banking and apps available for fund transfer

Thus, the history of banking in India shows that with time and the needs of people, major developments have been brought about in the banking sector with an aim to prosper it.

Definition

Banking refers to the system of financial institutions, such as banks and credit unions, that provide various financial services to individuals, businesses, and governments. Banking services mainly include accepting deposits, lending money, facilitating transactions, and offering various financial products like savings accounts, loans, and credit cards. Banking plays a crucial role in the economy by facilitating the flow of money and enabling economic activities.

Principles of Banking:

The principles of banking are the foundational guidelines that govern the operations of a bank. These principles ensure that banks operate efficiently, legally, and ethically, offering reliable financial services to customers. The key principles include:

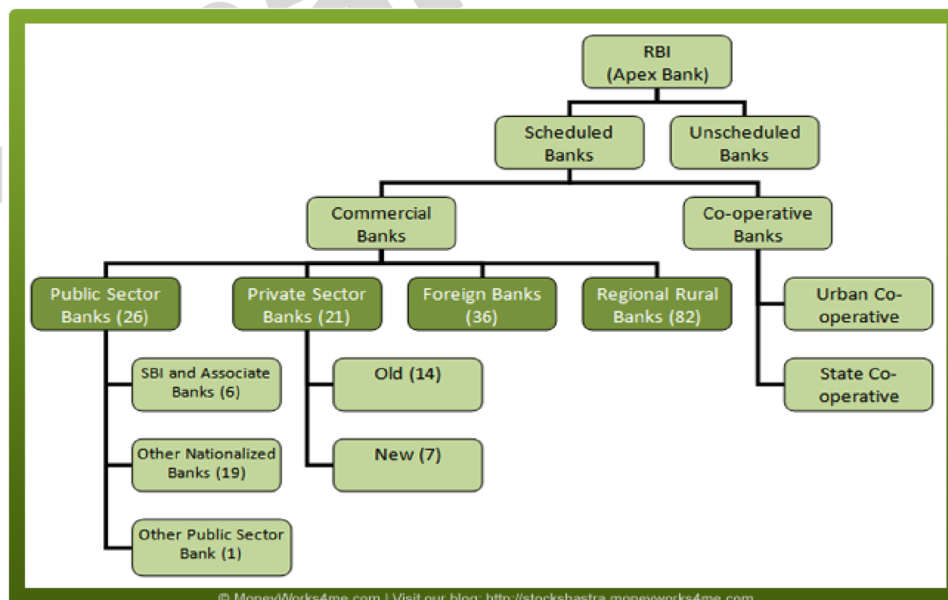
1. **Principle of Safety**:
   - Banks must ensure the safety of the depositors' funds. This means minimizing risk through proper management, diversification, and investing in low-risk assets.
2. **Principle of Liquidity**:
   - Banks should maintain enough liquid assets to meet the withdrawal demands of depositors and to provide loans. This means having cash or assets that can be quickly converted to cash.
3. **Principle of Profitability**:
   - Banks must operate profitably to remain in business and meet the needs of their stakeholders. This principle involves managing the bank's income (e.g., from interest on loans) and expenses (e.g., operating costs) to generate a sustainable profit.
4. **Principle of Solvency**:
   - Banks must maintain enough capital to meet their long-term obligations and withstand financial stress. This means having a solid financial foundation, with assets greater than liabilities.
5. **Principle of Customer Service**:
   - A bank must focus on providing high-quality customer service. This includes offering products that meet the diverse financial needs of customers and ensuring ease of access to banking services.
6. **Principle of Prudence**:
   - Banks must exercise caution in their operations to prevent excessive risk-taking. This includes evaluating loans, investments, and other financial products carefully to avoid defaults and losses.
7. **Principle of Transparency**:
   - Banks must be transparent in their dealings with customers, ensuring that all policies, fees, and services are clear and understandable. Transparency builds trust with customers and regulatory bodies.
8. **Principle of Confidentiality**:
   - Banks must protect the privacy of their customers' financial information, abiding by laws and regulations on data protection.

Importance of Banks:

1. **Facilitate Economic Growth**:
   - Banks provide financial services that support businesses and individuals, which are essential for economic growth. They do this by offering loans, savings products, and investment opportunities that help fund ventures and increase productivity.
2. **Financial Intermediation**:
   - Banks serve as intermediaries between savers and borrowers, ensuring that idle funds are used effectively to fund productive activities. This promotes economic activity and wealth creation.
3. **Credit Creation**:
   - Through lending, banks create credit in the economy, which increases the availability of funds for investment and consumption. This can lead to increased production and job creation.

4. **Promote Investment**:
    - Banks provide a safe place for individuals and businesses to deposit their money, while also offering investment products like stocks, bonds, and mutual funds. This encourages people to invest in the economy, helping businesses grow and innovate.
5. **Support Trade and Commerce**:
    - Banks facilitate trade through instruments like letters of credit, which guarantee payment for international transactions. They also provide foreign exchange services, enabling global commerce.
6. **Providing Financial Services**:
    - Banks offer essential financial services like savings accounts, current accounts, loans, mortgages, and insurance products that individuals and businesses need to manage their finances effectively.
7. **Stabilizing the Financial System**:
    - By regulating the flow of money, ensuring liquidity, and offering financial products, banks contribute to the stability of the financial system, which is crucial for maintaining trust and preventing economic crises.
8. **Wealth Creation and Distribution**:
    - Through their financial products and services, banks help in wealth creation by providing credit to businesses, and distributing wealth by offering savings and investment avenues to individuals.
9. **Employment Generation**:
    - Banks are significant employers, providing jobs to millions in various sectors,

Classification of Banks



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

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.

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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.

Credit Creation

1. The Role of Commercial Banks in Credit Creation

- **Deposits as Base**: The initial process of credit creation begins when a commercial bank receives deposits. This deposit becomes the base or foundation from which credit is created.
- **Lending**: The bank lends out a portion of the deposited funds to borrowers. Importantly, the funds do not physically leave the bank. Instead, when a loan is made, the bank credits the borrower's account with the loan amount, thus creating new deposits.

2. The Reserve Requirement

- **Fractional Reserve Banking**: Under fractional reserve banking, banks are required to keep only a fraction of their deposits as reserves, with the rest available for lending. The reserve ratio is set by the central bank (e.g., the Federal Reserve in the U.S. or the European Central Bank).

- For example, if the reserve requirement is 10%, for every $100 deposited, the bank must hold $10 in reserve and can lend out $90.

3. Money Multiplier

- **Formula**: The money multiplier determines how much the money supply will increase for every dollar of reserves. It is calculated as: Money Multiplier=1Reserve Ratio\text{Money Multiplier} = \frac{1}{\text{Reserve Ratio}}Money Multiplier=Reserve Ratio1
- For example, if the reserve ratio is 10%, the money multiplier would be: 10.1=10\frac{1}{0.1} = 100.11=10
- This means that for every dollar of reserves, up to $10 in new money could be created through the lending process.

4. Process of Credit Creation

1. **Initial Deposit**: A customer deposits $100 into a bank account.
2. **Bank Reserves**: The bank keeps $10 (if the reserve ratio is 10%) and lends out the remaining $90.
3. **Second Deposit**: The borrower who receives the $90 may spend it, and the recipient of the payment may deposit it into their own bank account.
4. **Further Lending**: The second bank now holds a $90 deposit. It keeps $9 (10%) in reserve and lends out $81, continuing the process.
5. **Money Expansion**: This process continues, with each bank holding only a fraction of the deposits as reserves and lending the rest, creating new money with each cycle.

5. Limits to Credit Creation

- **Reserve Requirements**: The primary limit to credit creation is the reserve ratio set by the central bank. If the reserve ratio increases, less money can be created.
- **Bank's Willingness to Lend**: Credit creation is also limited by banks' willingness to lend and borrowers' demand for loans.
- **Central Bank Policies**: Central banks can influence credit creation through monetary policy, such as lowering interest rates to encourage borrowing or increasing reserve requirements to restrict lending.

6. Importance of Credit Creation

- **Economic Growth**: Credit creation is vital for economic expansion as it allows businesses and individuals to borrow money for investment, consumption, and expansion.
- **Money Supply**: Credit creation is one of the primary ways the money supply increases in modern economies.
- **Inflation Risks**: If too much credit is created and the economy grows too quickly, it can lead to inflation, as there is more money chasing the same amount of goods and services.

7. Central Bank's Role

- **Monetary Policy**: The central bank controls the money supply indirectly by setting the reserve requirements and through its control of short-term interest rates. It can increase or decrease the amount of money banks are able to create by influencing these factors.
- **Open Market Operations**: Central banks can buy or sell government bonds to inject or remove money from the banking system, influencing the level of reserves and, in turn, credit creation.

8. Example of Credit Creation in Practice

- **Example**: Suppose a bank receives a $1,000 deposit. With a reserve ratio of 10%, the bank can lend out $900. If the borrower spends that $900, and the recipient deposits it in another bank, that second bank can lend out $810, and so on.
- Over several rounds of lending, the original deposit of $1,000 can generate a total increase in the money supply (through credit creation) of up to $10,000, assuming no leaks from the banking system (such as cash withdrawals or excess reserves).

RESERVE BANK OF INDIA:

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

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

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

Powers/ Functions of RBI:

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

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

Main functions of the Reserve Bank are described below:

1. Note Issue:

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

2. Banker to Government:

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

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

3. Banker's Bank:

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

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

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

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

4. Custodian of Exchange Reserves:

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

5. Controller of Credit:

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

6. Ordinary Banking Functions:

The Reserve Bank also performs various ordinary banking functions:

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

7. Miscellaneous Functions:

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

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

8. Forbidden Business:

Being the central bank of the country, the Reserve Bank:
(a) Should not compete with member banks and
(b) should keep its assets in liquid form to meet any situation of economic crisis.

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

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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) Byestablishing the DepositInsurance 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.

Nationalization and Merger of banks

Nationalization of banks refers to the process by which the government takes control of private banks or financial institutions, making them state-owned entities. In the context of India, nationalization of banks was a significant policy change that took place in the 1960s and 1970s. The government took over commercial banks with the aim of aligning them with the nation's

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developmental goals and ensuring greater access to banking services, especially in rural and underserved areas.

Nationalization of Banks in India

1. First Nationalization (1969):
   - On July 19, 1969, the Government of India nationalized 14 major commercial banks. The aim was to ensure that the banking system served the needs of the economy and contributed to the country's economic development, rather than just focusing on profitability.
   - The nationalization was driven by the need to bring about financial inclusion, control the economy's credit flow, and promote social welfare.
2. Second Nationalization (1980):
   - In 1980, six more banks were nationalized to further extend the government's reach into the banking sector and ensure financial inclusion.
   - The motive was to control a larger share of the banking industry and ensure that the benefits of banking extended to rural and backward areas.

Objectives of Nationalization of Banks

1. Promotion of Social Welfare:
   - To ensure that banks serve the interests of the common people, particularly the poor and marginalized communities, by providing financial services like credit, savings, and insurance at affordable rates.
2. Economic Development:
   - Nationalization aimed to channel credit into sectors such as agriculture, small-scale industries, and infrastructure, which were considered crucial for India's economic growth.
3. Financial Inclusion:
   - By nationalizing banks, the government wanted to ensure that banking services reached all regions, especially rural and remote areas, where access to financial services was limited.
4. Control Over Credit and Savings:
   - The government aimed to regulate and control the flow of credit in the economy to align it with national priorities, such as industrial growth, infrastructure development, and poverty alleviation.
5. Prevention of Concentration of Economic Power:
   - One of the concerns was the concentration of financial power in the hands of a few private banks. Nationalization aimed to reduce such concentrations and ensure that the banking sector was aligned with national interests.

Merger of Banks in India

The merger of banks in India has been a part of the broader policy initiatives aimed at strengthening the banking sector. Mergers involve the consolidation of smaller or weaker banks into larger, financially stronger ones. This is done to enhance the operational efficiency of banks, reduce the cost of operations, and improve their capacity to extend credit.

1. Recent Mergers:
   - In recent years, the Indian government has undertaken several major mergers of public sector banks (PSBs) to create larger, more robust banking entities. In 2019, for example, the

government merged 10 public sector banks into 4 large entities to improve their financial health, efficiency, and competitiveness.

2. Objectives of Bank Mergers:
   - Increase Efficiency: Merging smaller or weak banks with larger ones aims to improve operational efficiency, reduce redundancy, and increase profitability.
   - Financial Strength: Larger banks resulting from mergers have stronger balance sheets, which allows them to better handle financial challenges and have more resources to lend.
   - Improve Competitiveness: Mergers allow banks to compete more effectively with private sector banks and global financial institutions.
   - Address Non-Performing Assets (NPAs): Combining weaker banks with healthier ones can help reduce the overall burden of NPAs, as larger banks can better manage and resolve these bad loans.

Importance and Usefulness of Nationalization and Mergers

1. Increased Access to Banking:
   - Nationalization helped spread banking services across India, including in rural areas, where private banks were reluctant to open branches.
   - Mergers of banks allow for a more extensive branch network and better reach, facilitating greater financial inclusion.
2. Economic Growth and Development:
   - Nationalized banks have played an essential role in financing key sectors such as agriculture, small-scale industries, and infrastructure, supporting India's economic growth.
   - Merged banks, with their increased capital and resources, are better positioned to fund large infrastructure projects and industrial growth, contributing to economic development.
3. Improved Financial Stability:
   - Nationalization reduced the risk of financial instability caused by private banks pursuing profit-driven motives at the cost of broader economic objectives.
   - Bank mergers can reduce the risk of systemic crises by creating larger and more resilient financial institutions.
4. Social and Economic Justice:
   - Nationalization aimed at promoting equity and inclusion, ensuring that credit and financial services were accessible to the poor and rural areas, which were neglected by private banks.

Effects of Nationalization and Mergers

Effects of Nationalization:

1. Positive Effects:
   - Access to Credit: Nationalized banks increased credit availability to underserved sectors like agriculture and small industries.
   - Boost to the Economy: Nationalization helped finance India's Green Revolution and industrialization, contributing to rapid economic development.
   - Financial Inclusion: Nationalization led to a significant increase in the number of bank branches in rural areas, improving financial inclusion.
2. Negative Effects:
   - Inefficiency: Many nationalized banks were burdened with bureaucratic inefficiencies and a lack of innovation.

- Political Interference: Nationalized banks often suffered from political interference in lending decisions, leading to non-performing loans and inefficiency.
- Slow to Adapt: These banks struggled to compete with private banks, which were more nimble and better at adopting new technology.

Effects of Mergers:

1. Positive Effects:
    - Cost Efficiency: Mergers led to reduced operational costs, better economies of scale, and a stronger balance sheet for the merged entities.
    - Increased Credit Availability: The creation of larger, more financially stable banks made more resources available for lending to businesses and consumers.
    - Global Competitiveness: Merged banks were better positioned to compete globally, improving India's presence in international financial markets.
2. Negative Effects:
    - Job Losses: Mergers often lead to staff redundancies as banks streamline their operations.
    - Cultural Integration Issues: Merging banks with different corporate cultures can lead to internal conflicts and challenges in integration.
    - Regional Imbalances: Some regions may suffer from reduced banking services if branch closures follow the mergers, especially in areas that previously had a strong regional bank presence.

Evaluation of Nationalization and Merger of Indian Banks

1. Evaluation of Nationalization:
    - Nationalization achieved its goals of promoting financial inclusion and directing credit to key sectors. However, the inefficiencies associated with bureaucratic control and political interference hindered the performance of these banks.
    - Over time, the need for financial sector reforms became apparent, with calls for greater autonomy for banks and privatization of some public-sector banks to improve efficiency.
2. Evaluation of Bank Mergers:
    - Mergers have generally been positive in terms of improving the financial strength of banks and enhancing operational efficiencies. The increased size of banks post-merger has helped them compete better in the global financial landscape.
    - However, challenges such as cultural integration and regional service imbalances remain, and the social impact of job losses has been significant.

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UNIT II

BANK DEPOSITS

Deposits Mobilization:

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

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

Classification of Deposits Account:

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

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

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

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

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

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

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

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

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

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

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

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

Joint Accounts:
Two or more individuals may open a joint account. Various options exist for operating the account:
• Jointly by A and B – Both A and B will have to sign for withdrawals and other operations. For example, high value transactions in a partnership firm may require the joint signature of two or more partners.
• Either or Survivor – Either of them can operate the account individually. After the demise of one, the other can operate it as survivor. This is the normal option selected by families.
• Former or Survivor – The first person mentioned as account-holder will operate it during his / her lifetime. Thereafter, the other can operate. This option is often selected by a parent while opening an account with the son / daughter.
• Latter or Survivor - The second person mentioned as account-holder will operate it during his / her lifetime. Thereafter, the other can operate. While opening the account, the operating option needs to be clearly specified.

Nomination:
The bank account opening form provides for the account holder to select a nominee. In the event of demise of the account holder, the bank will pay the deposit amount to the nominee, without any legal formalities. The salient provisions regarding nomination facility in bank accounts are as follows:
• Nomination facility is available for all kinds of bank accounts – savings, current and fixed deposit.
• Nomination can be made only in respect of a deposit which is held in the individual capacity of the depositor and not in any representative capacity such as the holder of an office like Director of a Company, Secretary of an Association, partner of a firm and Karta of an HUF.
• In the case of a deposit made in the name of a minor, nomination shall be made by a person lawfully entitled to act on behalf of the minor.
• Nomination can be made in favour of one person only.
• Nomination favouring the minor is permitted on the condition that the account holder, while making the nomination, appoints another individual not being a minor, to receive the amount of the deposit on behalf of the nominee in the event of the death of the depositor during the minority of the nominee.
• Cancellation of, or variation in, the nomination can be made at any time as long as the account is in force. While making nomination, cancellation or variation, witness is required and the request should be signed by all account holders.
• When the nominee makes a claim to the bank account, two documents are normally asked for:
*Proof of death of depositer
*Identity proof of nominee
• Payment to nominee only releases the bank from its obligation on the account. The nominee would receive the money, in trust, for the benefit of the heirs. The legal heirs of the deceased person can claim their share of the deposit proceeds from the nominee.

Closure of Deposit Accounts:
This might occur in different ways:
• Account-holder can request closure of the account, and give instructions on how the balance in the deposit should be settled.
• On death of the sole account holder, the account would be closed and balance paid to the nominee. If nominee is not appointed, then bank would pay the legal representative of the account holder.
• On receipt of notice of insanity or insolvency of the sole account holder, the bank will stop operations in the account.
• On receipt of notice of assignment of the bank account, the bank would pay the amount lying in the account to the assignee.
• On receipt of a court order or garnishee order from Income Tax authorities, the bank would stop the transactions in the bank account during the pendency of the order.

Under the Scheme, in the event of liquidation, reconstruction or amalgamation of an insured bank, every depositor of that bank is entitled to repayment of the deposits held by him in the same right and

same capacity in all branches of that bank upto an aggregate monetary ceiling of Rs. 1,00,000/- (Rupees one lakh). Both principal and interest are covered, upto the prescribed ceiling.

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

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

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

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

Types of loans:

a. Secured

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

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

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

b. Unsecured

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

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- 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.
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.

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Unit-III
Subject: Insurance

Meaning of Insurance:

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

Key elements of the insurance contract:

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

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

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

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

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

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

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

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

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

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

For car insurance, the insurer needs to know:

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

9.Full and True Disclosure -

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

10. Duty of Both the Parties -

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

Types of insurance:

- **Life insurance:**

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

- **Health insurance**:

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

- **Motor insurance:**

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

- **Accident and disability insurance:**

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

- **Home insurance:**

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

  Though you need to be prepared for future uncertainties by availing insurance cover, you may not need all types of insurance. The priority of any insurance product may vary depending on your individual need. Insurance is a large industry with numerous product types available to cater to every sort of need. Some of them mentioned already are of top priority for every individual. Priority of rest other

types of insurance may purely depend on your unique need or situation. Let's take a look at some of the insurance types that are of lesser priority.

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

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

Importance of insurance:

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

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

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

- **Promotes economic growth:**

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

- **Distribution of risk:**

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

- **Helps to get loan easily:**

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

- **Inculcates savings habit**:

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

- **Provides tax benefit:**

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

Principles of Insurance:

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

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

Principle of Utmost Good Faith

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

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

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

Principle of Proximate Cause

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

Example –

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

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

Principle of Insurable interest

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

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

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

Principle of Indemnity

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

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

Principle of Subrogation

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

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

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

Principle of Contribution

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

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

Principle of Loss Minimisation

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

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

Historical Background of Insurance:

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

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

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

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

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

IRDA:-INSURANCE REGULATORY AND DEVELOPMENT AUTHORITY

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

Functions of IRDA :

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

Role of IRDA in the Insurance Sector in India

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

Like the banking system in India is regulated as per the guidelines of RBI. It restricts the bankers to not behave unruly with the account holders. The banking institutes are allowed to offer loans and interest

as per the rates pre-defined by RBI. It leaves no room for the monopoly to take over which in turn works best for the masses. Financial Institutes like banks and insurance companies will be successful in our democracy until market practices are for the majority and not just for fraction of people.

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

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

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

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Unit –IV

LIFE INSURANCE

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

2.2.1 Meaning and Nature Life Insurance

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

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

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

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

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

1.2.2 Nature of Life Insurance -

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

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

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

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

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

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

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

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

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

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

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

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

The features or characteristics of the Life Insurance

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

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

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

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

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

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

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

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

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

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

Importance of Life Insurance

The fast growing industrial development and the revolution in transport and communication system, no doubt have brought in prosperity, but at the same time, these advancements have endangered

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human life tremendously, have created tensions and uncertainty unprecedentally. The activities of the terrorists and extremists, industrial accidents, transport accidents etc have reduced the security in human life. In addition to the above, the floods, earthquakes, hurricanes and such natural calamities and environmental / ecological imbalance have made life much more uncertain. On one hand, the per capital income is rising, but on the other hand, man's income making capacity is getting reduced. A solution on all these, the life insurance has achieved great importance.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Following are the types of life insurance available in India:

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

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

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

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

2. Term Insurance with Return of Premium

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

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

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

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

3. Unit Linked Insurance Plan (ULIP) -

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

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

4. Endowment Policy

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

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

5. Moneyback Policy

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

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

Whole Life Insurance

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

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

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

7. Group Life Insurance

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

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

8. Child Insurance Plans

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

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

9. Retirement Plans

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

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

UNIT-V

Introduction :

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

General Insurance :-

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

Advantages of general insurance plans –

General insurance plans are beneficial because of the following reasons –

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

Types of general insurance plans

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

Health insurance

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

Features of health insurance plans

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

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

- Family floater plans which cover the whole family
- Senior citizen plans which cover senior citizens
- Covid-19 specific health insurance plans
- Critical illness plans which cover specified critical illnesses
- Disease specific plans for specific diseases
- Top-up and super top-up plans for supplementing an existing coverage
- Hospital cash plans which pay a daily benefit in case of hospitalization
- **Motor insurance**

  Motor insurance plans are general insurance plans for vehicles. These plans are mandatory as per law and have to be bought for every vehicle so that the vehicle is allowed to run on Indian roads.

Features of motor insurance plans

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

Travel insurance

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

Features of travel insurance plans

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

Home insurance

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

Features of home insurance

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

Fire insurance

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

Features of fire insurance plans

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

Procedure to Apply for General Insurance

1. Assess Your Insurance Needs

- **Identify the Type of Coverage**:
  - Determine the kind of insurance policy that suits your needs (e.g., health, motor, property, travel, etc.).
  - Consider factors like your personal or family situation, assets, liabilities, and potential risks.
- **Estimate Coverage Amount**:
  - Assess the value of the item or asset to be insured (e.g., car, house, health).
  - Ensure the sum insured is appropriate for your needs (e.g., medical bills or the cost of replacing your car in case of damage).

2. Research Available Insurance Policies

- **Compare Insurers**:
  - Research different general insurance providers to compare policies, coverage details, premiums, and claim settlement ratios.
  - Use online tools or consult with an insurance agent to compare policies from multiple providers.

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- **Understand Terms and Conditions**:
  - Read the policy documents carefully to understand the coverage, exclusions, premiums, and terms.

3. Obtain Quotes

- **Online/Offline Options**:
  - Request quotes from insurers either through their website (online), through insurance agents, or by visiting the branch.
- **Factors Affecting Premium**:
  - The premium amount is influenced by the type of coverage, the insured amount, risk factors, and any optional add-ons.
  - Request the insurer to explain how the premium is calculated.

4. Fill the Application Form

- **Personal and Property Details**:
  - Provide accurate and complete details in the application form, including your personal information (name, address, contact details) and details of the insured item (e.g., car make, health condition, home address).
- **Disclose All Material Facts**:
  - Be truthful and disclose all material facts such as pre-existing medical conditions, past claims history, or prior damages.
  - Omitting or misrepresenting facts can lead to policy rejection or claim denial.
- **Choose Coverage Options**:
  - Select the coverage options you need (e.g., add-ons for personal accident, natural calamities, theft, etc.).
  - Some policies may allow customization based on your preferences.

5. Submit the Required Documents

- **Proof of Identity and Address**:
  - Typically, you will need to submit documents like a government-issued ID (Aadhar card, passport, voter ID), proof of address (utility bills, rental agreement).
- **Asset or Vehicle Documentation**:
  - For property or motor insurance, submit documents such as property ownership papers, vehicle registration details, and inspection reports.
- **Medical Documents** (for health insurance):
  - Provide medical records or reports if applying for health insurance, including any history of pre-existing medical conditions.

6. Underwriting Process

- **Risk Assessment by Insurer**:
  - The insurance company will assess the risk factors based on the information provided. This process is known as underwriting.
  - The insurer will review your application, verify your information, and calculate the appropriate premium.
- **Inspection/Medical Examination**:

    - For certain policies (e.g., motor, health, or property), the insurer may request an inspection of the asset (vehicle, home) or a medical check-up (in case of health insurance).
- **Approval or Rejection**:
    - Based on the underwriting process, the insurer will either approve the policy or reject it due to high risk or failure to meet requirements.

7. Receive Policy Document

- **Policy Issuance**:
    - Once approved, the insurer will issue the policy document. This will include details of the insured item, sum insured, policy duration, premiums, exclusions, and the claims process.
- **Review the Policy**:
    - Carefully review the policy document for accuracy and ensure it matches the terms discussed earlier.
    - Check the policy number, terms of coverage, exclusions, and the premium amount.

8. Payment of Premium

- **Premium Payment**:
    - Pay the premium amount for the policy. Most insurers offer several payment methods, such as:
        - One-time lump sum payment (annual or multi-year premium).
        - Installments (monthly, quarterly, or half-yearly).
    - The insurer will issue a receipt after payment, which is a proof of coverage.
- **Premium Payment Methods**:
    - Online (credit/debit card, net banking).
    - Offline (cheque, cash, demand draft).

9. Activation of Policy

- **Policy Activation**:
    - After the payment is processed, the insurance policy is activated. You are now covered as per the terms mentioned in the policy document.
- **Receive Confirmation**:
    - You may receive an email or SMS confirming the activation of your policy along with your policy number.

10. Ongoing Maintenance

- **Policy Renewal**:
    - General insurance policies are typically renewed annually. It's important to renew the policy before its expiration to maintain continuous coverage.
- **Update Policy Details**:
    - Notify the insurer if there are any changes to the details provided (e.g., vehicle modifications, address changes, or change in health status).

11. Claims Process (In Case of Loss)

- **Report the Claim**:

  - In case of a loss or damage, immediately report the incident to the insurer. This can typically be done through their claims helpline, app, or website.
- **Provide Necessary Documentation**:
  - Submit the necessary documents to support your claim, such as photographs, police reports (in case of theft), medical reports (for health insurance), and repair bills (for vehicle damage).
- **Claim Settlement**:
  - The insurer will assess the claim and settle it based on the policy terms, subject to the deductible and exclusions.

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