SYLLABUS
Class: - I Year
Subject: - Financial Services & Insurance

Units	Syllabus
UNIT – I	**Overview of Financial Services** Meaning, Importance and Scope of financial services, Indian financial system, Brief Study of Financial Institutions - RBI, Commercial and Co- Operative Banks, Non-banking financial institutions, Development Bank, Merchant Bank, Basics of Mutual Funds, Credit Rating, An overview of micro finance.
UNIT – II	**Financial Markets** Money Market in India: Importance, features and instruments, Measuresto strengthen money market in India, Recommendations of the working group on money market. Capital Markets in India: New issue market and stock exchange, Importance of stock exchanges, Role of The Securities and Exchange Board of India (SEBI), Meaning and Classification of Mutual Funds, Operation of the Funds, Net Asset Value, and Regulation of Mutual Funds in India. Financial Instruments: Cash, Derivative, Foreign Exchange, Debt basedand Equity based financial instruments.
UNIT – III	**Principles and Practices of Insurance** Concept, Principles & Types of Insurance-Life Insurance, Micro Insurance, Annuities, Health Insurance, General Insurance, Motor Insurance, Marine Insurance, Property Insurance and Other Miscellaneous Insurance, The Concept of Risk and Classification of Risks, Insurance Documents, Online Insurance, Process of claim and settlement, Policy Terms and Conditions, Legal and Regulatory Aspects of Insurance(IRDA).

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UNIT - 1

Meaning of Financial Services

Financial Services refer to economic services provided by various financial institutions that deal with the management of money. It is an intangible product of financial markets like loans, insurance, stocks, credit card, etc. Financial services are products of institutions such as banking firms, insurance companies, investment funds, credit unions, brokerage firms, and consumer finance companies.

1. **Customer Oriented:** Financial services are customer-focused services that are offered as per the requirements of customers. Financial institutions properly study customer needs before designing and offering such services. They are meant to fulfill the specific needs of a customer which differs from person to person.
2. **Intangibility**: These services are intangible which makes their marketing a challenging task for financial institutions. Such institutions need to focus on building their brand image by providing innovative and quality products to customers. Firms enjoying better credibility in market are easily able to sell off their products.
3. **Inseparable:** Financial Services are produced and delivered at the same time simultaneously. These services are inseparable and can't be stored in advance. Here production and supply function both occurs at the same time.
4. **Manages Fund:** Financial services are specialized at managing funds of people. These services enable peoples in allocating their idle lying funds into useful means for earning revenues. Financial services provide various means to people for converting their savings into investment.
5. **Financial Intermediation:** These services does the work of financial intermediation as it brings together the lender and borrower. Financial services mobilize the funds of people who are having enough of it and made it available to the one who are in need of it.
6. **Market Based:** Financial services are market based which changes as per the changing conditions. It is a dynamic activity which varies as per the variations in socio-economic environment and varying needs of customers. importance and scope of financial services in points
7. **Distributes Risk:** Risk distribution is the key feature offered by financial services. These services transfer the risk of an individual not willing to take among different persons who all are willing to bear it. Financial institutions diversify the risk and secure people against damages by providing them various insurance policies. importance and scope of financial services in points

Importance and scope of financial services in points

1. **Essential for economic growth:** Financial services play a crucial role in the development ofthe economy by facilitating investment, providing access to credit, and facilitating trade.

2. **Diverse Range of services:** Financial services encompass a wide range of services including banking, insurance, investment management, and capital markets.

3. **Access to credit:** Financial services provide access to credit for individuals, businesses, and governments, enabling them to invest in their future and drive economic growth.

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4. **Improved Standard Of Living:** By providing access to credit and investment opportunities,financial services can improve the standard of living for individuals and communities.

5. **Risk Management:** Financial services help individuals and businesses manage financialrisks through insurance and other risk management products.

6. **Facilitation of trade:** Financial services are essential for facilitating international trade by providing access to capital, currency exchange services, and trade financing.

7. **Promotion of savings and investments:** Financial services promote savings and investmentby providing a range of savings and investment products.

8. **Increased Financial Literacy:** Financial services can also increase financial literacy andeducation, helping individuals make informed financial decisions.

9. **Support for small businesses:** Financial services play a crucial role in supporting small businesses by providing access to credit and investment capital.

10. **Regulated Industry:** Financial services are regulated by government agencies to ensure transparency, and consumer protection in the financial system.

Meaning of Indian financial system

The Financial system enables lenders and borrowers to exchange funds. India has a financial system that is controlled by independent regulators in the sectors of insurance, banking, capital markets and various services sectors. Thus, a financial system can be said to play a significant role in the economic growth of a country by mobilizing the surplus fundsand utilizing them effectively for productive purposes.

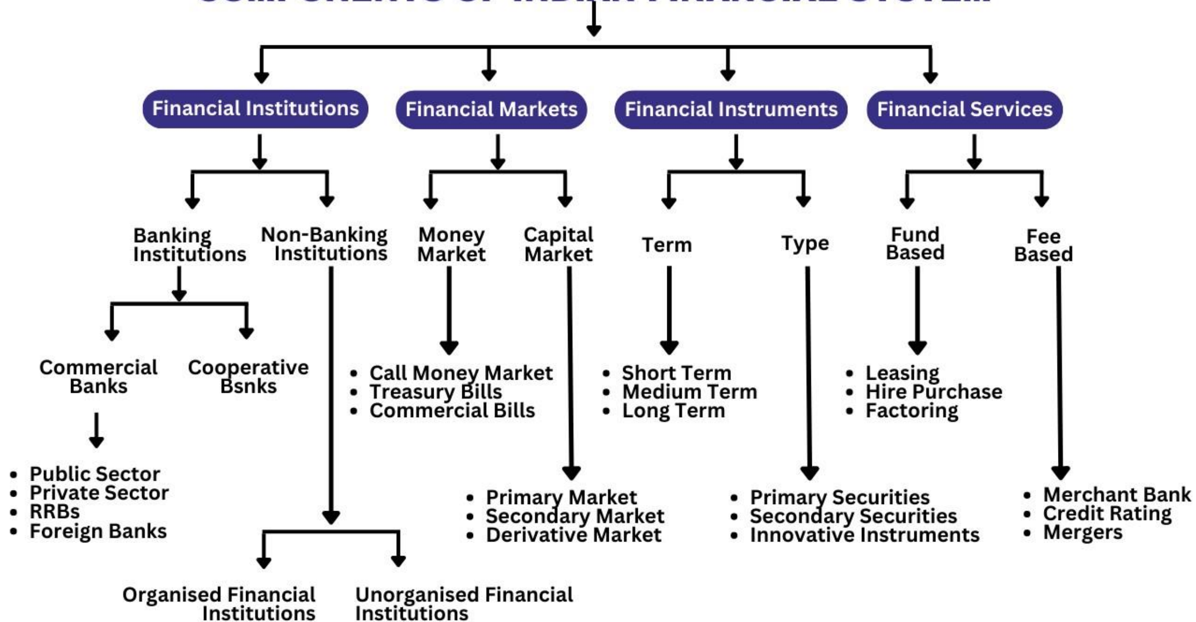
FEATURES OF INDIAN FINANCIAL SYSTEM:

- It plays a vital role in economic development of a country.
- It encourages both savings and investment.
- It links savers and investors.
- It helps in capital formation.
- It helps in allocation of risk.
- It facilitates expansion of financial markets

COMPONENTS/ CONSTITUENTS OF INDIAN FINANCIAL SYSTEM

The following are the four major components that comprise the Indian Financial System:

1. Financial Institutions
2. Financial Markets
3. Financial Instruments/ Assets/ Securities
4. Financial Services.



FINANCIAL

INSTITUTIONS

Financial institutions are organizations that provide a variety of financial services and products to individuals, businesses, and governments. They play a crucial role in the functioning of the economy by channeling savings and investments into productive uses, facilitating transactions, and providing credit to help individuals and organizations grow.

Some common types of financial institutions include:

1 *Banks*: Offer various financial services, such as accepting deposits, granting loans, and offering investment products.

2 *Credit unions:* Non-profit organizations that provide similar services as banks, but are owned and controlled by their members.

3 *Insurance companies:* Provide protection against potential financial loss due to unforeseen events such as death, injury, or property damage.

4 *Investment firms:* Offer investment advice and manage investments for individuals andinstitutions.

5 *Stockbrokers*: Provide services to buy and sell stocks and other securities.

TYPES OF FINANCIAL INSTITUTIONS

Financial institutions can be classified into two categories:

A. Banking Institutions

B. Non - Banking Financial Institutions

A. Banking Institutions

Reserve Bank of India

The Reserve Bank of India (RBI) is the central bank of India and acts as the regulator of the country's monetary policy. It was established in 1935 and is headquartered in Mumbai, India.

1 *Role in monetary policy*: The RBI is responsible for controlling the supply of money in the economy and ensuring price stability through the use of monetary policy tools such as interest rate changes, open market operations, and reserve requirements.

2 *Regulator of the banking system:* The RBI regulates and supervises the banking system in India, including commercial banks, cooperative banks, and regional rural banks.

3 *Issuer of currency:* The RBI is the issuer of the Indian rupee and is responsible for theprinting and circulation of currency in the country.

4 *Development functions*: The RBI also has a developmental role, with a focus on promoting financial inclusion, promoting the growth of small and medium enterprises, and providing banking services in rural areas.

5 *Banker to the government*: The RBI acts as the banker to the government and is responsible for managing government finances, including the receipt and disbursement of public funds.

6 *Foreign exchange management:* The RBI is responsible for managing foreign exchangereserves and regulating foreign exchange transactions in the country.

7 *Consumer protection:* The RBI also plays a role in consumer protection by setting guidelines and regulations to protect the rights of banking customers.

Commercial banks

The term commercial bank refers to a financial institution that accepts deposits, offers checking account services, makes various loans, and offers basic financial products like certificates of deposit (CDs) and savings accounts to individuals and small businesses. A commercial bank is where most people do their banking.

Commercial banks make money by providing and earning interest from loans such as mortgages, auto loans, business loans, and personal loans. Customer deposits provide banks with the capital to make these loans.

Commercial banks are an important part of the economy. Not only do they provide consumers with an essential service, but they also help create capital and liquidity in the market.
They ensure liquidity by taking the funds that their customers deposit in their accounts and lending them out to others. Commercial banks play a role in the creation of credit, which leads to an increase in production, employment, and consumer spending, thereby boosting the economy.

Role of Commercial Banks in Developing Economy

1) Banks promote capital formation
2) Banks help in balanced regional development
3) Banks promote the right type of Industries
4) Banks create employment opportunities
5) Banks helps in trade and industry
6) Banks helps in developing nation to develop

Public sector Banks

Public Sector Banks consist of the State Bank Group and Other Nationalized Banks. It was wholly and controlled by Government.

State Bank of India and its group

The Reserve Bank of India, which is India's central bank, acquired a controlling interest in the Imperial Bank of India. On 1 July 1955, the Imperial Bank of India became the State Bank of India. In 2008, the Government of India acquired the Reserve Bank of India's stake in SBI so as to remove any conflict of interest because the RBI is the country's banking regulatory authority.

In 1959, the government passed the State Bank of India (Subsidiary Banks) Act. This made eight banks that had belonged to princely states into subsidiaries of SBI. This was at the time of the First Five Year Plan, which prioritized the development of rural India. The government integrated these banks into the State Bank of India system to expand its rural outreach. In 1963 SBI merged State Bank of Jaipur (est. 1943) and State Bank of Bikaner (est.1944).

Nationalized Banks

It refers to a bank in which govt. of India has more than 50% stake. It is also called the Public Sector Bank. So, there is no difference between public sector bank and nationalized bank.

Private Sector Banks

Private Sector Banks are those banks, where private individuals or private companies own a major part of the bank's equity. Even though these banks follow the nation's central bank's guidelines, but they can formulate their independent financial strategy for the customers. A large part of these banks are traded on the stock market and anyone can buy a significant part of these bank's shares from the stock market.

Most private sector banks are very agile in their financial strategy. These privates can make a quick financial decision according to the market condition. For this reason, interest rates fluctuate quickly on both deposits and loans. They offer very reliable services to the customers. They also offer various customized services to the customer to fulfil their individual financial needs. There is no job security in private banks. Most employees work very hard to satisfy the customer's financial requirements. In these banks, the employees get promotions on their merit and performance.

However, private sector banks charge a little extra for their financial services. Compared to other banks, the interest rate on deposits is low in most private sector banks. Even though getting a loan in the private banks is very easy, but they charge more interest on these loans. Axis Bank is one of the best examples of private sector banks in India. This bank is very competitive and offers the best services to its customers.

The Regional Rural Banks (RRBs)

The Regional Rural Banks (RRBs) were established in 1975 under the provisions of the Ordinance promulgated on 26th September, 1975 and Regional Rural Banks Act, 1976 with a view to developing the rural economy by providing, for the purpose of development of agriculture, trade, commerce, industry and other productive activities in the rural areas, credit and other facilities, particularly to small and marginal farmers, agricultural labourers, artisans and small entrepreneurs, and for matters connected therewith and incidental thereto.

Co-operative banks

Cooperative banks are a type of financial institution that is owned and controlled by its members, who are also customers of the bank. The primary aim of cooperative banks is to serve the financial needs of their members, rather than maximizing profits for external shareholders.

Some key features of cooperative banks include:

1. *Member-owned:* Cooperative banks are owned by their members, who are also customers ofthe bank. Members have a say in how the bank is run and share in its profits.
2. *Focus on serving members:* The main aim of cooperative banks is to serve the financial needsof their members, rather than maximizing profits.
3. *Democratic control*: Cooperative banks are run on a democratic basis, with members havingan equal vote in major decisions, regardless of the size of their deposit.
4. *Limited interest on loans:* Cooperative banks often offer lower interest rates on loans to their members compared to commercial banks.
5. *Community focus:* Cooperative banks are often focused on serving the needs of specific communities, such as farmers, small business owners, or low-income households.

Cooperative banks can offer a range of financial products and services, including savings and checking accounts, loans, mortgages, and other types of financial services. They can play an important role in providing access to financial services to under banked communities.

B. <u>Non-banking financial institution (NBFI)</u>

A non-banking financial institution (NBFI) or non-bank financial company (NBFC) is a financial institution that does not have a full banking license or is not supervised by a national or international banking regulatory agency. NBFC facilitate bank-related financial services, such as investment, risk pooling, contractual savings, and market brokering.

Development bank

Development bank, national or regional financial institution designed to provide medium- and long-term capital for productive investment, often accompanied by technical assistance, in poor countries.

The number of development banks has increased rapidly since the 1950s; they have beenencouraged by the International Bank for Reconstruction and Development and its affiliates.The large regional development banks include the Inter-American Development Bank, established in 1959; the Asian Development Bank, which began operations in 1966; and the African Development Bank, established in 1964. They may make loans for specific national or regional projects to private or public bodies or may operate in conjunction with other financial institutions. One of the main activities of development banks has been the recognition and promotion of private investment opportunities. Although the efforts of the majority of development banks are directed toward the industrial sector, some are also concerned with agriculture.

Merchant Bank

A merchant bank is a type of financial institution that provides various services to businesses, including underwriting, financing for trade, and issuing loans and securities. Merchant banks are typically more focused on providing financial services to companies and large corporations, rather than individual consumers.

Some key services offered by merchant banks include:

1. *Corporate finance:* Merchant banks provide financial advice and assistance with mergers and acquisitions, initial public offerings (IPOs), and other types of corporate finance activities.
2. *Trade financing:* Merchant banks assist businesses with financing trade activities, such as issuing letters of credit and providing short-term loans.
3. *Investment banking:* Merchant banks often provide investment banking services, such as underwriting and selling securities.
4. *Foreign exchange:* Merchant banks assist businesses with foreign exchange transactions and currency hedging.
5. *Asset management:* Merchant banks can provide asset management services, such asmanaging portfolios of stocks, bonds, and other investments.

Merchant banks often have extensive networks and relationships with businesses, financial institutions, and governments around the world, which allows them to provide a range of specialized financial services to their clients.

Basics of Mutual Fund

A mutual fund is a type of investment vehicle that pools money from many individual investors to purchase a diversified portfolio of stocks, bonds, or other securities. Mutual funds are managed by professional fund managers who invest the money in a variety of assets in accordance with the fund's investment objective.

Some key features of mutual funds include:

1. *Diversification:* Mutual funds provide individual investors with access to a diversifiedportfolio of assets, which can help reduce the risk of investing in a single security.

2. *Professional Management:* Mutual funds are managed by professional fund managers who have expertise in selecting and managing investments.

3. *Liquidity:* Mutual funds are typically highly liquid, meaning that investors can buy and sell shares of the fund on any business day at the current net asset value (NAV) price.

4. *Low minimum Investment*: Mutual funds often have a low minimum investment requirement, making it possible for individual investors to get started with a relatively small amount of money.

5. *Cost-effectiveness:* Because mutual funds pool money from many investors, the costs of buying and selling securities, as well as the costs of professional management, are spread acrossthe entire fund. This can make mutual funds a cost-effective option for individual investors.

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However, it's important to remember that mutual funds, like all investments, carry risk, and the performance of a fund can be affected by a variety of factors, such as changes in the market, economic conditions, and the performance of individual securities within the fund. It's important to carefully research and understand a mutual fund before investing.

Credit Rating

A credit rating is an assessment of the creditworthiness of a borrower, such as a corporation, government, or financial institution. Credit ratings are issued by credit rating agencies, such as Moody's, Standard & Poor's (S&P), and Fitch Ratings, and provide investors with an independent evaluation of the borrower's ability to repay its debts.

Credit ratings are typically expressed as a letter grade, such as AAA, AA, A, BBB, etc. The highest credit rating, AAA, indicates the lowest default risk, while the lowest rating, D, indicates that the borrower has already defaulted on its debts.

Some key aspects of credit ratings include

1 *Financial health:* Credit ratings take into account a borrower's financial health, including its revenue, earnings, debt levels, and cash flow.

2 *Ability to repay debts:* Credit ratings also assess a borrower's ability to repay its debts, taking into account its ability to generate cash flow, its debt structure, and other factors.

3 *Market conditions*: Credit ratings take into account the overall economic and market conditions, as well as industry-specific risks, to provide a more complete assessment of a borrower's creditworthiness.

4 *Default risk*: Credit ratings provide an assessment of the default risk of a borrower, which is the risk that it will not be able to repay its debts on time.

5 *Impact on borrowing costs:* Credit ratings can have a significant impact on the borrowing costs of a borrower. Higher credit ratings can result in lower borrowing costs, while lowercredit ratings can result in higher borrowing costs.

Credit ratings are widely used by investors, including bondholders and banks, as a tool for making informed investment decisions. They provide a relatively objective and independent assessment of a borrower's creditworthiness and can help investors to understand the level of risk associated with a particular investment.

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An overview of Micro Finance

Micro finance is a financial service that provides small loans, savings accounts, insurance, and other financial services to low-income individuals, who may not have access to traditionalbanking services. The goal of microfinance is to provide access to financial services to people who would otherwise be excluded from the formal financial system and to help them improve their standard of living and reduce poverty.

Some key features of microfinance include:

1. *Small Loans:* Microfinance institutions provide small loans to low-income individuals, typically ranging from a few hundred dollars to a few thousand dollars. These loans are used to start or expand a small business, purchase household goods, or pay for emergencies.

2. *Savings accounts:* Microfinance institutions also offer savings accounts, allowing low-income individuals to save money and earn interest on their deposits.

3. *Insurance:* Some microfinance institutions offer insurance products, such as life and health insurance, to their clients.

4. *Community-based lending:* Microfinance institutions often use a group-based lending model, where a group of individuals guarantee each other's loans and support each other's businesses.

5. *Empowerment:* Microfinance is seen as a tool for empowering women and marginalized communities by providing them with access to financial services and helping them to improve their standard of living.

Microfinance has been successful in providing financial services to millions of low-income individuals around the world and has been credited with helping to reduce poverty, increase economic growth, and improve the standard of living for many people. However, it is important to note that microfinance is not a panacea for poverty and that success depends on many factors, including the quality of the institutions providing the services, the regulatory environment, and the cultural and economic context.

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ASSIGNMENT FOR UNIT 1

1. What has been the impact of financial services on economic growth and development in India?
2. What are the major monetary policy tools used by the RBI, and how do they influence the Indian economy?
3. How do commercial banks and cooperative banks structures, governance, and operational strategies differ?
4. What challenges do NBFIs face in terms of regulation, risk management, and competition with traditional banks?
5. Select a mutual fund scheme and conduct a performance analysis over the past five years. What factors have influenced its performance?
6. Explain the methodology used by credit rating agencies to evaluate creditworthiness. What factors are considered most critical?

UNIT – II

FINANCIAL MARKETS

MONEY MARKET IN INDIA
The money market is a market for financial assets that are close substitutes for money. It is a market for overnight to short-term funds and instruments having a maturity period of one or less than one year. It is not a place (like the Stock Market), but an activity conducted by telephone. The money market constitutes a very important segment of the Indian financial system.

The **characteristics** of the money market are:
(i) It is not a single market but a collection of markets for several instruments.
(ii) It is a wholesale market of short-term debt instruments.
(iii) Its principal feature is honour where the creditworthiness of the participants is important.
(iv) The main players are: Reserve Bank of India (RBI), Discount and Finance House of India (DFHI), mutual funds, banks, corporate investors, non-banking finance companies (NBFCs), state governments, provident funds, primary dealers, Securities Trading Corporation of India (STCI). Public sector undertakings (PSUs), non-resident Indians and overseas corporate bodies.
(v) It is a need-based market wherein the demand and supply of money shape the market.

Functions of the Money Market
A money market is generally expected to perform three broad functions:
(i) Provide a balancing mechanism even out the demand for and supply of short-termfunds.
(ii) Provide a focal point for central bank intervention for influencing liquidity and generallevel of interest rates in the economy.
(iii) Provide reasonable access to suppliers and users of short-term funds to fulfill their borrowings and investment requirements at an efficient market clearing price.

Besides the above functions, a well-functioning money market facilitates the development of a market for longer term securities. The interest rates for extremely short-term use of money serve as a benchmark for longer-term financial instruments.

Benefits of an Efficient Money Market
1. **Safety:** Money Market Instruments are low-risk, ensuring the safety of invested capital and making them an attractive choice for investors.
2. **Liquidity:** These instruments offer high liquidity, enabling quick access to funds when needed and adding flexibility to investment portfolios.
3. **Steady Returns:** Investors benefit from consistent returns, providing reliability and predictability in their investment income.
4. **Diversification:** Money Market Instruments allow for portfolio diversification by including various low-risk options, reducing overall investment risk.
5. **Short-Term Investment:** These instruments are suitable for short-term financial goals due to their short maturity periods, helping investors meet immediate needs.
6. **Government Backing:** Some instruments enjoy government backing, enhancing investor trust and providing security.
7. **Easy Entry:** Accessible to individual and institutional investors, Money Market Instruments promote inclusivity and broader participation in the market.
8. **Market Stability:** They contribute to overall financial market stability by providing liquidity and short-term financing options, supporting economic stability.

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The Indian Money Market

The average turnover of the money market in India is over Rs 40,000 crore daily. This is more than 3 per cent of the total money supply in the Indian economy and 6 per cent of the total funds that commercial banks have let out to the system. This implies that 2 per cent of the annual GDP of India gets traded in the money market in just one day. Even though the money market is many times larger than the capital market, it is not even a fraction of the daily trading in developed markets.

Role of the Reserve Bank of India in the Money Market the Reserve Bank of India is themou important constituent of the money market. The market comes within the direct purview of the Reserve Bank regulations

The aims of the Reserve Bank's operations in the money market are:

(i) to ensure that liquidity and short-term interest rates are maintained at levelsconsistent with the monetary policy objectives of maintaining price stability:

(ii) to ensure an adequate flow of credit to the productive sectors of the economy; and

(iii) to bring about order in the foreign exchange market.

The Reserve Bank influences liquidity and interest rates through a number of operating instruments cash reserve requirement (CRR) of banks, conduct of open market operations (OMOS), repos, change in bank rates and, at times, foreign exchange swap operations.

Money Market Reforms

- The "Committee to Review the Working of Monetary System" chaired by **Chakravarty** made several recommendations in 1985 to develop Indian money market.
- As a follow-up, the RBI set up a Working Group on money market under the chairmanship of **Vaghul**, in 1987. Based on the recommendations of **Vaghul Committee**, RBI initiated a number of measures to widen and deepen the money market; the main ones of which are as follows:

Deregulation of Interest Rates

- From May 1989, the ceiling on interest rates on the call money, inter-bank short-term deposits, bills rediscounting and inter-bank participation was removed and the rates were permitted to be determined by the market forces. Thus, the system of **administered interest rates** is being gradually dismantled

Introduction of New Money Market Instruments

- In order to widen and diversify the Indian money market RBI has introduced many new money market instruments such as 182-days treasury bills, 364-day treasury bills, CDs & CPs.
- Through these instruments the government, commercial banks, financial institutions and corporate can raise funds through the money market. They also provide investors additional instruments for investments.
- In order to expand the investor base for CDs and CPs the minimum amount of investment and the minimum maturity periods are reduced by RBI

Repurchase Agreements (Repos)

- RBI introduced repos in government securities in December 1992 and reverse repos in November 1996.
- Repos and reverse repos help to even out short-term fluctuations in liquidity in the money market. They also provide a short-term avenue to banks to park their surplus funds.
- Through changes in repo and reverse repo rates RBI transmits policy objectives to entire money market

Liquidity Adjustment Facility (LAF)

- RBI has introduced LAF from June 2000 as an important tool for adjusting liquidity through repos and reverse repos.
- Thus, in the recent years RBI is using repos and reverse repos as a policy to adjust liquidity in the money market and therefore, to stabilize the short-term interest rates or call rates.

Discount and Finance House of India (DFHI)

- In order to impart liquidity to money market instruments and help the development of secondary market in such instruments, DFHI was set up in 1988 jointly by RBI, public sector banks and financial institutions

Regulation of NBFCs

- The RBI Act was amended in 1997 to provide for a comprehensive regulation of NBFC sector
- According to the amendment, no NFBC can carry on any business of a financial institution, including acceptance of public deposit, without obtaining a Certificate of Registration (CoR) from RBI.

The Clearing Corporation of India Limited (CCIL)

- The CCIL was registered on April 30, 2001 under the Companies Act, 1956, with the State Bank of India as the chief promoter
- The CCIL clears all transactions in government securities and repos reported on the Negotiated Dealing System (NDS) of RBI

Money Market Centers

There are money market centers in India at Mumbai, Delhi, and Kolkata. Mumbai is the only active money market center in India with money flowing in from all parts of the country getting transacted there.

Money Market Instruments

The instruments traded in the Indian money market are

(i) Treasury hills (T-bills)
(ii) Call/notice money market–Call (overnight) and short notice (up to 14 days)
(iii) Commercial paper (CP)
(iv) Certificates of deposit (CD)
(v) Commercial bills (CB)

Call/notice money market and treasury bills form the most important segments of the Indian money market. Treasury bills, call money market, and certificates of deposit provide liquidity for government and banks while commercial paper and commercial hills provide liquidity for the commercial sector and intermediaries

TREASURY BILLS

Treasury Bills are short-term instruments issued by the Reserve Bank on behalf of the government to tide over short-term liquidity shortfalls. This instrument is used by the government to raise short-term funds to bridge temporary gaps between its receipts (revenue and capital) and expenditure. They form the most important segment of the money market not only in India but all over the world as well.

T-bills are repaid at par on maturity. The difference between the amount paid by the tenderer at the time of purchase (which is less than the face value) and the amount received on maturity represents the interest amount on T-bills and is known as the discount. Tax deductedat source (TDS) is not applicable on T-bills.

Features of T-bills

(i) They are negotiable securities.

(ii) They are highly liquid as they are of shorter tenure and there is a possibility of an interbank repos in them.

(iii) There is absence of default risk.

(iv) They have an assured yield, low transaction cost, and are eligible for inclusion in the securities for SLR purposes.

(v) They are not issued in scrip form. The purchases and sales are effected through the Subsidiary General Ledger (SGL) account.

(vi) At present, there are 91-day and 364-day T-bills in vogue. The 91-day T-bills are auctioned by RBI every Friday and the 364-day T-bills every alternate Wednesday that is, the Wednesday preceding the reporting Friday.

(vii) Treasury bills are available for a minimum amount of Rs 25,000 and in multiples thereof.

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TYPES OF T-BILLS

There are three categories of T-bills.

(i) **On-tap bills:** On-tap bills, as the name suggests, could be bought from the Reserve Bank at any time at an interest yield of 4.663 per cent. They were discontinued from April 1, 1997, as they had lost much of their relevance.

(ii) **Ad hoc bills:** Ad hoc bills were introduced in 1955. It was decided between the Reserve Bank and the government of India that the government could maintain with the Reserve Bank a cash balance of not less than Rs 50 crore on Fridays and Rs 4 crore on other days,free of obligation to pay interest thereon. And whenever the balance fell below the minimum, the government account would be replenished by the creation of ad hoc bills in favour of the Reserve Bank. Ad hoc 91-day T-bills were created to replenish the government's cash balances with the Reserve Bank. They were just an accounting measure in the Reserve Bank's books and, in effect, resulted in automatic 15avour15y1515ng of the government's budget deficit. A 15avour15y15 deficit is the increase in the net Reserve Bank credit to the central government which is the sum of the increase in the Reserve Bank's holdings of: (a) the government of India's dated securities; (b) 91-day treasury bills, and (c) rupee coins for changes in cash balances with the Reserve Bank.

In the 1970s and 1980s, a large proportion of outstanding ad hocs were converted into long-term dated and undated securities of the government of India. This conversion is referred as "funding" Their expansion put a constraint on the Reserve Bank conduct of monetary policy and hence they were discontinued from April 1, 1997. The outstanding ad hoc T-bills and tap bills as on March 31, 1997. Were funded on April 1, 1997, into special securities without any specified maturity at an interest rate of 4.6 per cent per annum. A system of Ways and Means Advances from April 1. 1997, was introduced to replace ad hoc bills and to accommodate temporary mismatches in the government of India receipts and payments,

1.. **Auctioned T-bills:** Auctioned T-bills, the most active money market instrument, were first introduced in April 1992. The Reserve Bank receives bids in an auction from various participants and issues the bills subject to some cut-off limits. Thus, the yield of this instrument is market determined. These bills are neither rated nor can they be rediscounted with the Reserve Bank. At present, the Reserve Bank issues T- bills of two maturities-91-days and 364-days.

Importance of T-Bills

The development of T-bills is at the heart of the growth of the money market. T-bills play a vital role in the cash management of the government. Being risk free, their yields at varied maturitics serve as short-term benchmarks and help in pricing different floating rate products in the market. The T-bills market is the preferred central bank tool for market intervention to influence liquidity and short-term interest rates. The development of the T-bills market is a pre- condition for effective open market operations.

Development of T-Bills Market

Ad hoc 91-day treasury bills were introduced in the mid-1950s. These bills were introduced to replenish on an automatic basis, the central government's cash balance with the Reserve Bankso that only the minimum required level was maintained. These bills opened up an era of

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uncontrolled monetisation of the central government's deficit. Before the 1960s, there was an active T-bills market owing to the weekly auctions of the 91-day T-bills.

In the mid-1960s, the auction system for the issue of 91-day T-bills was replaced by on- tap bills. Till 1974, the tap bills rate changed with changes in the bank rate which sustained the interest of the participants in the T-bills market.

However, after 1974, the discount rate on ad hoc and tap bills was fixed uniformly at 4.6 per cent. The T-bills market lost lustre due to the administered rate regime. However, the interest in T-bills revived with the introduction of the 182-day T-bills on auction basis in November 1986. It also revived because of the constitution of the Discount and Finance House of India in 1988 as a money market institution.

The 182-day T-bills were discontinued in 1992 and replaced by 364-day auction T-bills in April 1992 as part of reform measures. Subsequently, the 91-day auction T-bills were introduced in January 1993. The parallel existence of the 91-day tap T-bills and ad hoc T-bills continued till March 1997.

Thereafter, the 14-day intermediate T-bills and auction T-bills were introduced in April 1997 to provide an alternative avenue to state 16avour16y1616n and to facilitate some foreign central banks to invest surplus funds.

The 182-day T-bills were reintroduced to provide variety in treasury bills. However, both the 182-and 14-day T-bills have been discontinued since March 2001.

The Reserve Bank's purchase d holding of T-bills have become totally voluntary with the discontinuation of ad hoc and on-tap 91-day T-bills. Before the introduction of the auctioned 'T- bills, a substantial majority of the T-bills used to be held by the Reserve Bank. With the introduction of auctioned T-bills, more than 25 per cent of T-bills are held by investors other than the Reserve Bank. The auction procedures have been streamlined with notified amounts for all auctions being specified in case of competitive bids and non-competitive bids being accepted outside the notified amount. A uniform price-based auction for 91-day T-bills was introduced on an experimental basis in 1998-99. It has been successfully adopted.

CALL/NOTICE MONEY MARKET

Introduction

It is by far the most visible market as the day-to-day surplus funds, mostly of banks, are traded there. The call money market accounts for the major part of the total turnover of the money market. It is a key segment of the Indian money market. Since its inception in 1955-56, the call money market has registered a tremendous growth in volume of activity.

The call money market is a market for very short-term funds repayable on demand and with a maturity period varying between one day to a fortnight. When money is borrowed or lentfor a day, it is known as call (overnight) money. Intervening holidays and/or Sundays are excluded for this purpose. When money is borrowed or lent for more than a day and upto 14 days, it is known as notice money. No collateral security is required to cover these transactions. The call money market is a highly liquid market, with the liquidity being exceeded only by cash. It is highly risky and extremely volatile as well.

Why Call Money

Call Money is required mostly by banks. Commercial banks borrow money from other banks to maintain a cash balance known as cash reserve requirement. This interbank borrowing has led to the development of the call money market.

CRR is an important requirement to be met by all commercial banks. The Reserve Bank stipulates this requirement from time to time. The CRR is a technique for monetary control

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effected by the Reserve Bank for abiving specific macro-economic objective/s such as maintaining desired levels of inflation, growth, exchange and so cu CRR refers to the cash that banks have to maintain with the Reserve Bank as a certain percentage of their total demand and time liabilities (DTL) The CRR, a primary instrument of monetary picy, has been brought down from 15 per cent in March 1991 to 4,725 per cent in October 2002.

Prior to May 2000, banks were required to maintain 85 per cent of their fortnightly reserve requirement on a daily basis. The networking among various branches of banks was not developed enough for the branches port their respective net demand and time liabilities (NDTL) positions to the main branch on the first day of the fortnight itself. The NDTL of a bank is the sum of its liabilities to the banking system and its liabilities the public.

With a view to providing further flexibility to banks and enabling them to choose an optimium strategy of bolding reserves depending upon their intra-period cash flows, several measures were undertaken recently. In November 1999, a lagged reserve maintenance system was introduced under which banks were allowed to maintain reserve requirements on the basis of the last Friday of the second (instead of the first) preceding fortnight. From May 6, 2000, the requirement of minimum 85 per cent of the CRR balance on the first 13 days be maintained on a daily basis was reduced to 65 per cent. With effect from August 11, 2000, this was duced to 50 per cent for the first seven days of the reporting fortnight while maintaining the minimum 65 per cent for the remaining seven days including the reporting Friday. The daily minimum CRR was reduced mable the smooth adjustment of liquidity between surplus and deficit segments and better cash management avoid sudden increase in overnight call rates:

Hence, once every fortnight on a reporting Friday," banks have to satisfy reserve requirements which ahen entails borrowing in the call/notice money market. It is a market in which banks trade positions to maintain cash reserves. It is basically an over the counter (OTC) market without the intermediation of brokers. Ter-bank trading accounts for more than 80 per cent of total transactions.

Participants in the Call Money Market

The call money market was predominantly an inter-bank market till 1971 when UTI and LIC were allowed to operate as lenders. Until March 1978, brokers were also allowed to participate in the call money market who would effect transactions between lenders and borrowers for a brokerage. In the 1990s, the participation was gradually widened to include DFHI, STCI, GIC, NABARD, IDBI, money market mutual funds, 17avour17y17. And private sector mutual funds as lenders in this market.

The participants in the call money market as both lenders and borrowers are scheduled and non-scheduled commercial banks, foreign banks, state, district and urban cooperative banks, and DFHI. Other borrowing participants are the brokers and dealers in securities/bullion/bills market, and sometimes individuals of high financial status

In 1996-97, the Reserve Bank permitted primary dealers to participate in this market as both borrowers and lenders. Entities that could provide evidence of surplus funds have been permitted to route their lending through primary dealers. The minimum size of operations for routing transactions has been reduced from Rs 20 crore to Rs 3 crore, with effect from May 9, 1998.

Role of the Reserve Bank in the Call Money Market

The Reserve Bank intervenes in the call money market indirectly in two ways

1.. by providing lines of finance/additional funding to the DFHI and other call money dealers; and

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(ii) by conducting repo auctions.

Additional funding is provided through reverse repo auctions which increases liquidityin the market and brings down call money rates.

The Reserve Bank's repo auctions absorb excess liquidity in the economy and push updepressed call rates.

The Reserve Bank's intervention is necessary as there is a close linkage between the callmoney market and other segments of the money market and the foreign exchange market.

Link Between Call Money Market and Other Financial Markets

There is an inverse relationship between call rates and short-term money market instruments such as certificates of deposit and commercial paper. When call rates peak to a high level, banks raise more funds through certificates of deposit. When call money rates are lower, many banks fund commercial paper by borrowing from the call money market and earn profits through between money market segments.

A large issue of government securities also affects call money rates. When banks subscribe to large issues of government securities, liquidity is sucked out from the banking system. This increases the demand for funds in the call money market which pushes up call money rates. Similarly, a rise in the CRR or in the repo rate absorbs excess liquidity and call rates move up.

The call money market and the foreign exchange market are also closely linked as there exist arbitrage opportunities between the two markets. When call rates rise, banks borrow dollars from their overseas branches, swap them for rupees, and lend them in the call money market. At the same time, they buy dollars forward in anticipation of their repayment liability. This pushes forward the premia on the rupee-dollar exchange rate. It happens many a times that banks fund foreign currency positions by withdrawing from the call money market. This hikes the call money rates

MONEY MARKET INTERMEDIARIES

The Discount and Finance House of India

The DFHI was set up in April 1988 by the Reserve Bank with the objective of deepening and activating the money market. It commenced its operations from July 28, 1988.

It is a joint stock company in form and is jointly owned by the Reserve Bank, public sector banks and all India financial institutions which have contributed to its paid-up capital of Rs 200 crore in the proportion of 5-3-2 In addition, refinance facility with the Reserve Bank and credit of Rs 100 crore from 28 public sector bunks on a consortium basis are the sources of its funds.

The role of the DFHI is to function as a specialized money market intermediary for stimulating activity in money market instruments and develop secondary market in these instruments. It also undertakes short term buy-back operations in the government and approved dated securities. DFHI mobilises funds/resources from commercial/cooperative banks, financial institutions, and corporate entities having resources to lend (which individually may not represent tradable volumes in wholesale market) which are pooled and lent in the money market. The two-way regular quotes in money market instruments provided by DFHI serve as a base to broaden the secondary market and give an assured liquidity to the instruments

DFHI was categorised as an eligible institution under the relevant of the RBI Act, 1934,in November 1989 so that the placement of funds with DFHI can be included as an asset with the banking system for netting purposes while calculating the net demand and time liabilities

for reserve purposes. DFHI is also an authorised institution to undertake repo transactions in treasury bills and all dated government securities to impart greater liquidity to these instruments.

Since November 13, 1995, DFHI is an accredited primary dealer. With this accreditation, its role has undergone a transformation Now it acts as a market maker, giving two-way quotes and takes large position on its account in government securities

The DFHI deals in treasury hills, commercial bills, certificates of deposits, commercial paper, short term deposits, call/notice money market and government securities. The presence of the DFHI as intermediacy in the money market has helped the corporate entities, banks, and financial institutions to raise short-term money and invest short-term surpluses. The DFHI also extends repos, that is, bay-back facility upto 14 days, to hanks and financial institutions in respect of money market 19avour19 y 1919 The cumulative turnover in each of these instruments is shown in Table 4:17.

The cumulative turnover of the DFHI in all financial transactions increased four-fold in a span of nine years. The major part of the runover was in call money followed by government dated securities and treasury hills. Its business in CDs and CPx was negligible and business in commercial bills declined sharply in the 1990s. Its dealings in government securities exceeded those in treasury bills after being accredited as a primary dealer

The DFHI has been concentrating on the call money market rather than activating other money marker instruments like CPs, CDs and CBs. These instruments need to be developed further for activating and deepening the money market.

MONEY MARKET MUTUAL FUNDS

Money Market Mutual Funds (MMMFs) were introduced in April 1991 to provide an additional short-term avenue for investment and bring money market investment within the reach of individuals. These mutual funds would invest exclusively in money market instruments.

MMMFs bridge the gap between small individual investors and the money market. MMMF mobilizes savings from small investors and invests them in short-term debt instruments or money market instruments

A Task Force was constituted to examine the broad framework outlined in April 1991 and consider the implications of the scheme. Based on the recommendations of the Task Force,a detailed scheme of MMMF was announced by the Reserve Bank in April 1992

The MMMFs portfolio consists of short-term money market instruments. An investor investing in MMMF gets a yield close to short-term money market rates coupled with adequate liquidity.

The Reserve Bank has been making several modifications to the scheme since 1995-96to make it more flexible and attractive to a larger investor base such as banks, financial institutions, and 19avour19y19 besides individuals. Modifications such as the removal of ceilingfor raising resources, allowing the private sector to set up MMMFs, permission to MMMFs to invest in rated corporate bonds and debentures, reduction in the minimum lock-in period to 15 days, and so on are steps towards making the MMMFs scheme attractive.

MMMFs were allowed to offer a ‘cheque writing facility in a tie up with banks to provide more liquidity to unit holders.

Earlier, MMMFs could be set up either in the form of a money market deposit account (MMDA) or as a separate entity. Now, all MMMFs have to be set up as separate entities only in the form of a “Trust.

The growth in MMMFs has been less than expected. Though, in principles, approvals were granted to 10 entities, only three MMMFs have been set up-one in the private sector Kothari Pioneer Mutual Fund, and the other two by IDBI and UTI. The total size of these funds is not very large.

The MMFs, earlier under the purview of the Reserve Bank, come under the purview of regulation since march 7, 2000

CAPITAL MARKET

INTRODUCTION

- The capital market is an important constituent of the financial system. It is a market for long- term funds both equity and debt and funds raised within and outside the country.
- The capital market aids economic growth by mobilizing the savings of the economic sectors and directing the same towards channels of productive uses. This is facilitated through the following measures.
- Issue of primary securities in the primary market', that is, directing cash flow from the surplus sector to the deficit sectors such as the government and the corporate sector.
- Issue of "secondary securities in the primary market, that is, directing cash flow fromthe surplus section to financial intermediaries such as banking and non-banking financial institutions.
- 'Secondary market' transactions in outstanding securities which facilitate liquidity. The liquidity of the stock market is an important factor affecting growth Many profitable projects require long-term finance and investment which means locking up funds for a long period. Investors do not like to relinquish control over their savings for a long time. Hence, they are reluctantto invest in long-gestation project It is the presence of the liquid secondary market that attracts investors because it ensures a quick exit without heavy losses or costs.

Hence, the development of an efficient capital market is necessary for creating a climate conducive investment and economic growth.

Functions of a Capital Market

The functions of an efficient capital market are as follows.

1. Disseminate information efficiently for enabling participants to develop an informed opinion abou investment, disinvestment, reinvestment, or holding a particular financial asset.
2. Enable quick valuation of financial instruments both equity and debt.
3. Provide insurance against market risk or price risk through derivative trading and default risk through investment protection fund
4. Enable wider participation by enhancing the width of the market by encouraging participation through networking institutions and associating individuals.
5. Provide operational efficiency through
    a. simplified transaction procedure,
    b. lowering settlement timings, and
    c. lowering transaction costs
6. Develop margration
    a. real sector and financial sector,
    b. equity and debt instruments,
    c. long-term and short-term hands,
    d. long-term and short-term interest costs,
    e. private sector and government sector, and
    f. domestic funds and external funds.
7. Direct the flow of funds into efficient channels through investment, disinvestment, andreinvestment

Primary Capital Market and Secondary Capital Market

The capital market comprises the primary capital market and the secondary capital market.

Primary Market Primary market refers to the long-term flow of funds from the surplus sector to the and corporate sector (through primary issues) and to banks and non-bank financial intermediaries (through secondary issues). Primary issues of the corporate sector lead to capital formation (creation of net fixed assets and incremental change in inventories).

The nature of fund-raising is as follows,

Domestic

Equity issues by	- Corporates (primary issues) -Financial intermediaries (secondary issues)
Debt instruments by	-Government (primary issues) -Corporates (primary issues) -Financial intermediaries (secondary issues)

External

Equity issues through issue of	-Global Depository Receipts (GDR) and American Depository Receipts (ADR)
Debt instruments through	-External Commercial Borrowings (ECB)

Other External Borrowings

Foreign Direct Investments (FDI)	-in equity and debt form.
Foreign Institutional Investments (FIT)	-in the form of portfolio investments.
Non-Resident Indian Deposits (NRI)	-in the form of short-term and medium-term deposits.

The fund raising in the primary market can be classified as follows.

- Public issue by prospectus
- Private placement
- Rights issues

Secondary Market

The meaning of secondary market is in the form of and refers to the financial markets where securities, such as shares and bonds, are bought and sold after they have been issued in the primary market. Primary markets are where newly issued securities are sold to the public for the first time. Secondary market examples include stock exchanges (BSE, NYSE, NSE) and over-the-counter (OTC) markets.

Secondary markets also help determine the market price for securities, reflecting their perceived value based on supply and demand. These markets provide liquidity to investors, allowing them to easily buy and sell securities based on investing needs and objectives.

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Importance of a Secondary Market

The secondary market is important for several reasons:

- The secondary market helps measure the economic condition of a country. The rise or fall in share prices indicates a boom or recession cycle in an economy.
- The secondary market provides a good mechanism for a fair valuation of a company.
- The secondary market helps drive the price of securities towards their genuine, fair market value through the basic economic forces of supply and demand.
- The secondary market promotes economic efficiency. Each sale of a security involves a seller who values the security less than the price and a buyer who values the security more than the price.
- The secondary market allows for high liquidity – stocks can be easily bought and sold for cash.

HISTORY OF THE INDIAN CAPITAL MARKET

The history of the capital market in India dates back to the eighteenth century when East India Company. Securities were traded in the country, Until the end of the nineteenth century, securities trading was unorganised and the main trading centres were Bombay (now Mumbai) and Calcutta (now Kolkata). Of the two, Bombay was the chief trading centre wherein bank shares were the major trading stock. During the American Civil War (1860-61), Bombay was an important source of supply for cotton. Hence, trading activities flourished during the period, resulting in a boom in share prices. This boom, the first in the history of the Indian capital market, lasted for a half a decade. The bubble burst on July 1, 1865, when there was tremendous slump in share prices

The capital market was not well organised and developed during the British rule because the British government was not interested in the economic growth of the country. As a result, many foreign companies depended on the London capital market for funds rather thanon the Indian capital market. In the post-independence period also, the size of the capitalmarket remained small. During the first and second five-year plans, the government's emphasis was on the development of the agricultural sector and public sector undertakings The public sector undertakings were healthier than the private undertakings in as of paid up capital but their shares were not listed on the stock exchanges. Moreover, the Controller of Capital Ines (CCD) closely supervised and controlled the timing, composition, interest rates, pricing, allotment. And floatation costs of new issues. These strict regulations demotivated many companies from going public for almost four and a half decades. Te the 1950s, Century Textiles, Tata Steel, Bombay Dyeing. National Rayon, and Kohinoor Mills were the favourite scrips of speculators. As speculation became rampant, the stock market came to be known as Seta Baraar

Despite speculation, non-payment or defaults were not very frequent. The government enacted Securities Contracts (Regulation) Act in 1956 to regulate stock markets. The Companies Act, 1956 also enacted. The decade of the 1950s was also characterised by the establishment of a network for the development of financial institutions and state financial corporations.

The 1990s will go down as the most important decade in the history of the capital market of Ind Liberalisation and globalisation were the new terms coined and marketed during this decade. The Capit Issues (Control) Act, 1947 was repealed in May 1992. The decade was characterised by a new 24avour24y policy, emergence of SEBI as a regulator of capital market, advent of foreign institutional investors, eu issues, free pricing, new trading practices, new stockexchanges, entry of new players such as private sec mutual funds and private sector banks, and primary market boom and bust.

Major capital market scams took place in the 1990s. These shook the capital market and drove away small investors from the market. The securities scam of March 1992 involving brokers as well as bankers was one of the biggest scams in the history of the capital market. In the subsequent years owing to free pricing many unscrupulous promoters, who raised money from the capital market, proved to be fly-by-night operaton This led to an erosion in the investors' confidence. The M S Shoes case, one such scam which took place in March 1995, put a break on new issue activity

A brief history of the rise of equity trading in India

July 9, 1875: Native brokers form the Native Share and Stock Brokers' Association in Bombay. Membership fee is Re. 1. The association has 318 members.
1899: Bombay Stock Exchange acquires own premises.
1921: Clearing houses are established for settlement of trades as volumes increase.
1923: KR P Shroff becomes the honorary president of BSE. 1925: Bombay Securities Contract Control Act (BSCCA) comes into force. December 1, 1939: Stock exchange building is acquired.
1943: Forward trading banned till 1946. Only ready to deliver and hand delivery contracts permitted. 1956: Securities Contract Regulation Act drafted on the lines of BSCCA comes into force. 1957: BSE becomes the first exchange in India to get permanent recognition. 1964: Unit Trust of India (UTI) is born
April 1, 1966: KR P Shroff retires and Phiroze J Jeejeebhoy becomes chairman.
June 29, 1969: Morarji Desai bans forward trading.
1973: Construction of PI Towers, named after late Phirore Jamshedji Jeejeebhoy, starts. **January 2, 1986:** BSE Sensex launched as the first stock market index with 1978-79 as the baseyear November 1987: SBI Mutual Fund launches Magnum Regular Income Scheme.
April 1988: Securities and Exchange Board of India (SEBI) set up.
January 1992: SEBI given statutory powers.
May 1992: Harshad Mehta securities scam breaks.
May 27, 1992: Reliance is the first Indian company to make a GDR issue.
May 30, 1992: The Capital Issues Control Act. 1947 is repealed.
September 1992: Foreign institutional investors are permitted to invest in the Indian securities market.
November 1992: Finance Minister Manmohan Singh inaugurates Over the Counter Exchange ofIndia.
October 30, 1993: The first private sector mutual fund. Kothari Pioncer Mutual Fund, beginsoperations.

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1993: SEBI bans badla trading on BSE
June 1994: NSE commences operations in wholesale debt market segment. **November 1994:** The capital market segment INSE goes on stream. Trading is screen based for the first time in Indi
March 1995: BSE on line trading system (BOLT) replaces open outery system. April 1995: The National Securities Clearing Corporation Limited, India's first clearing corporation is set up.
October 1995: NSE overtakes BSE as the largest stock exchange in terms of volume of trading **April 1996:** Nifty is born. The National Securities Clearing Corporation Limited commencesoperations.
November 1996: The National Securities Depository Limited is created.
May 1997: BSE introduces screen based trading.
February 1997: SEBI releases norms for takcovers and acquisitions.
November 1998: SEBI recognises Interconnected Stock Exchange founded by 15 regional stock exchanges. This exchange starts functioning in February 1999
February 1998.: Launch of automated lending and borrowing mechanism (ALBM) on NSE.
March 11, 1999: Infosys Technologies is the first company to be listed on NASDAQ through a public offering of American Depository Receipts.
March 22, 1999: Central Depository Services (India) promoted by BSE commences operations. **September 1999:** ICICI is the first Indian company to be listed on the New York Stock Exchange (NYSE)
October 11, 1999: For the first time in BSE's history, the Sensex closes above the 5,000 mark at 5,031.78.
January 2000: BSE creates a Z' category of scrips in addition to A, B1, and B2 comprising scrips that breached or failed to comply with the listing agreement.
February 2000: Internet trading commences on NSE On February 14, 2000, BSE sensex hits all-time high of 6.150. On February 21, NSE records peak market capitalisation of Rs 11,94,282 crore.
April 10, 2000: The Sensex is revamped to include Dr. Reddy's Lab. Reliance Petroleum, Satyam Computers and Zee Telefilms replacing Indian Hotels, Tata Chemicals, Tata Power, and IDBI. **June 2000:** BSE and NSE introduce derivatives trading in the form of index futures.
July 9, 2000: BSE turns 125. October 19, 2000: Wipro lists on the NYSE.
January 22, 2001: Borrowing and Lending Securities Scheme (BLESS) launched on BSE topromote securities lending and borrowing activities.
March 2001: Ketan Parekh scam breaks. SEBI suspends all the broker directors of the BSE inrelation to the KP scam.
May 2001: BSE advises compulsory demat for B2 scrips.
June 2001: Index options start trading on NSE.

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SEBI Meaning

- SEBI full form is Securities and Exchange Board of India
- SEBI is a statutory regulatory body established by the Government of India to regulate the securities market in India and protect the interests of investors in securities.
- It also regulates the functioning of the stock market, mutual funds, etc.

What is SEBI and its functions?

The Securities and Exchange Board of India (Sebi) is a statutory regulatory body established by the Government of India in 1992 to regulate the securities market in India and protect the interests of investors in securities.

SEBI has the power to regulate and perform functions such as check the books of accounts of stock exchanges and call for periodical returns, approve by-laws of stock exchanges, inspect the books of financial intermediaries such as banks, compel certain companies to get listed on one or more stock exchanges, and handle the registration of brokers.

Why is SEBI formed?

Purpose of SEBI

SEBI was established to keep a check on unfair and malpractices and protect the investors from such malpractices. The organization was created to meet the requirements of the following three groups:

- Issuers: SEBI works toward providing a marketplace to the investors where they can efficiently and fairly raise their funds.
- Intermediaries: SEBI works towards providing a professional and competitive market to the intermediaries
- Investors: SEBI protects and supplies accurate information to investors.

Objectives of SEBI

The fundamental objective of SEBI is to safeguard the interest of all the parties involved in trading. It also regulates the functioning of the stock market. SEBI's objectives are:

- To monitor the activities of the stock exchange.
- To safeguard the rights of the investors
- To curb fraudulent practices by maintaining a balance between statutory regulations and self-regulation.
- To define the code of conduct for the brokers, underwriters, and other intermediaries.

Powers of SEBI

SEBI carries out the following tasks to meet its objectives: Protective functions, Regulatory functions, and developmental functions.

Functions that SEBI performs as a part of its ***protective functions*** are:

- It checks price manipulation
- It bans Insider trading
- It prohibits unfair and fraudulent trade practices
- It promotes a fair code of conduct in the security market
- It takes efforts to educate the investors regarding ways to evaluate the investment options better

As a part of its ***regulatory functions***, SEBI performs the following role:

- It has designed a code of conduct, rules, and regulations to regulate the brokers,underwriters, and other intermediaries.
- SEBI also governs a company's takeover.
- It regulates and registers the workings of share transfer agents, stockbrokers, merchantbankers, trustees, and others who are linked with the stock exchange.
- It regulates and registers the mutual funds as well.
- It conducts audits and inquiries of stock exchanges.

As a part of its ***developmental functions***, SEBI performs the following role:

- It facilitates the training of the intermediaries.
- It aims at promoting activities of the stock exchange by having an adoptable and flexible approach.

Structure of SEBI

The Board of SEBI comprises of nine members. The Board is an aggregate of the following:

1. One Chairman of the board – appointed by the Central Government of India
2. One Board member – appointed by the Central Bank, that is, the RBI
3. Two Board members – hailing from the Union Ministry of Finance
4. Five Board members – elected by the Central Government of India

The Chairman of SEBI, in addition to overseeing the Board, also looks over the Communications, Vigilance, and Internal Inspection Department.

There are four whole-time members in the organizational structure. The whole-time members are allocated a number of departments that they have to oversee. Each department is individually headed by an executive director. The executive directors report to specific whole- time members.

The organizational structure of SEBI consists of more than 25 departments, such as Foreign Portfolio Investors and Custodians (FPI&C), Corporation Finance Department (CFD), Information Technology Department (ITD), Department of Economic and Policy Analysis (DEPA-I,II, & III), Investment Management Department, Legal Affair Department, Treasury and Accounts Divisions (T&A), and National Institute of Securities Market (NISM)

SEBI Act and SEBI Guidelines

SEBI was established as a non-statutory body in 1988, entrusted with observing the stock market activities. The SEBI Act of 1922 converted SEBI into a statutory authority with autonomous powers. The Act provided SEBI with the authority to regulate capital markets, not just observe but enforce guidelines.

The SEBI Act 1992 covers the following areas:

- Composition and actions of the SEBI Board members
- Powers and Functions of the Board
- Fund sources of SEBI, as in grants made available by the Union Government
- Rules on Penalties and legal pathways
- Defines the judicial authority of SEBI
- The extent of powers of the Union Government to supersede SEBI

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SEBI also has to adhere to a list of SEBI guidelines, pertaining to areas such as:

- Employee Stock Option schemes
- Disclosure and Investor Protection norms
- Legal Proceedings
- Anti-money laundering norms
- Listing and delisting of securities
- Opening of trading terminals overseas

SEBI LODR regulations 2015

Listing Obligations and Disclosure Requirements (LODR) regulations for SEBI form one of the most important mandates. The regulation covers the extent of transparency and disclosures that listed companies have to abide by. In addition to the compulsory disclosure norms, the regulation also refines the listing agreement, which has to be entered between the stock exchange and the companies being listed.

The agreement consists of terms and conditions on governance, disclosures, and terms to maintain the listing status of the company. However, the new regulation in 2015 on LODR intends to consolidate all the previous amendments into one single document, making thedocument uniform across different segments of the capital market.

The SEBI (LODR) Regulations, 2015 entails the following:

- Disclosures and obligations that have to be acknowledged by the compliance officers ofthe listed company
- Listing down obligations uniform to all listed companies
- Distinct obligations for certain types of securities
- Segregating initial issuance and post-IPO norms
- Communication of the companies' fundraising activities
- Establishing timelines for notifying the exchanges of certain events
- Bringing SMEs under the ambit of the SEBI (LODR) Regulations

SEBI New Margin Rules

In September 2020, SEBI implemented new rules on margin pledge. The rule is expected to bring transparency and prevent misuse of clients' securities by brokerage firms. The new margin rules were directed to come into effect from June 1, but were delayed due to pandemic pushing the implementation date to September 1.

The new margin rules by SEBI mandate the following:

- The stock, being pledged, is to remain in the investor's de-mat account. As the stock is not changing accounts, the benefits from corporate events accrue directly to the investors
- Upfront collection of margins by brokers for any purchase or sale of securities, penalizing any sort of failure to do so. Clients could meet the margin requirements by the end of the day, which is now changed to the beginning of the day
- Power of Attorney (POA) cannot be assigned in the 28avour of the brokers for pledging. As under the old system, brokers could demand POA from the investors to execute decisions on their behalf

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- Margin pledge created separately for investors requiring margin
- Buy Today Sell Tomorrow (BTST) not allowed anymore for shares bought on margin. Investors are required to honor the delivery of share (T+2 days is the usual settlement period). Typically, investors would use intraday realized profits to meet the margin requirements, which is now amended by the new regulations. For a BTST trade, it can be initiated only if the net available margin is equal to or greater than 20 percent of the transaction value.

Mutual Funds

A mutual fund is a company that pools money from many investors and invests the money in securities such as stocks, bonds, and short-term debt. The combined holdings of the mutual fund are known as its portfolio. Investors buy shares in mutual funds. Each share represents an investor's part ownership in the fund and the income it generates.
Mutual funds are a popular choice among investors because they generally offer the following ***features***:

- Professional Management. The fund managers do the research for you. They select the securities and monitor the performance.
- Diversification or "Don't put all your eggs in one basket." Mutual funds typically invest in a range of companies and industries. This helps to lower your risk if one company fails.
- Affordability. Most mutual funds set a relatively low dollar amount for initial investment and subsequent purchases.
- Liquidity. Mutual fund investors can easily redeem their shares at any time, for the current net asset value (NAV) plus any redemption fees.

- ✓ **Mutual Fund** is like a financial vehicle that consists of all the money collected from different investors in securities such as stocks, bonds, and assets.
- ✓ It is operated by money managers who allocate the fund's assets and produce income for the fund's investors.
- ✓ It gives investors access to diversified portfolios at a low price.
- ✓ It is divided into several kinds of categories on the basis of investment objectives, kinds of securities they invest in, and the type of return they are expecting.
- ✓ It charges annual fees known as expense ratio or in some cases commissions.

Importance of mutual funds.
Most mutual funds fall into one of four main categories – money market funds, bond funds, stock funds, and target date funds. Each type has different features, risks, and rewards.

- Money market funds have relatively low risks. By law, they can invest only in certain high-quality, short-term investments issued by U.S. corporations, and federal, state and local governments.
- Bond funds have higher risks than money market funds because they typically aim to produce higher returns. Because there are many different types of bonds, the risks and rewards of bond funds can vary dramatically.
- Stock funds invest in corporate stocks. Not all stock funds are the same. Some examples are:
  - Growth funds focus on stocks that may not pay a regular dividend but have potential for above-average financial gains.
  - Income funds invest in stocks that pay regular dividends.
  - Index funds track a particular market index such as the Standard & Poor's 500 Index.
  - Sector funds specialize in a particular industry segment.
- Target date funds hold a mix of stocks, bonds, and other investments. Over time, the mix gradually shifts according to the fund's strategy. Target date funds, sometimes known as lifecycle funds, are designed for individuals with particular retirement dates in mind.

Benefits and risks of mutual funds.

Mutual funds offer professional investment management and potential diversification. They alsooffer three ways to earn money:

- Dividend Payments. A fund may earn income from dividends on stock or interest on bonds. The fund then pays the shareholders nearly all the income, less expenses.
- Capital Gains Distributions. The price of the securities in a fund may increase. When a fund sells a security that has increased in price, the fund has a capital gain. At the end of the year, the fund distributes these capital gains, minus any capital losses, to investors.
- Increased NAV. If the market value of a fund's portfolio increases, after deducting expenses, then the value of the fund and its shares increases. The higher NAV reflects the higher value of your investment.

All funds carry some level of risk. With mutual funds, you may lose some or all of the money youinvest because the securities held by a fund can go down in value. Dividends or interest payments may also change as market conditions change.

A fund's past performance is not as important as you might think because past performance does not predict future returns. But past performance can tell you how volatile or stable a fund has been over a period of time. The more volatile the fund, the higher the investment risk.

Process to Purchase and sell mutual funds

Investors buy mutual fund shares from the fund itself or through a broker for the fund, rather than from other investors. The price that investors pay for the mutual fund is the fund's per share net asset value plus any fees charged at the time of purchase, such as sales loads.

Mutual fund shares are "redeemable," meaning investors can sell the shares back to the fund at any time. The fund usually must send you the payment within seven days.

Before buying shares in a mutual fund, read the prospectus carefully. The prospectus contains information about the mutual fund's investment objectives, risks, performance, and expenses. See How to Read a Mutual Fund Prospectus Part 1, Part 2, and Part 3 to learn more about key information in a prospectus.

Understanding fees

As with any business, running a mutual fund involves costs. Funds pass along these costs to investors by charging fees and expenses. Fees and expenses vary from fund to fund. A fund with high costs must perform better than a low-cost fund to generate the same returns for you.

Even small differences in fees can mean large differences in returns over time. For example, if you invested $10,000 in a fund with a 10% annual return, and annual operating expenses of 1.5%, after 20 years you would have roughly $49,725. If you invested in a fund with the same performance and expenses of 0.5%, after 20 years you would end up with $60,858.

It takes only minutes to use a mutual fund cost calculator to compute how the costs of different mutual funds add up over time and eat into your returns. See the Mutual Fund Glossary fortypes of fees.

Avoiding fraud

By law, each mutual fund is required to file a prospectus and regular shareholder reports with the SEC. Before you invest, be sure to read the prospectus and the required shareholder reports.Additionally, the investment portfolios of mutual funds are managed by separate entities know as "investment advisers" that are registered with the SEC. Always check that the investment adviser is registered before investing.

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Regulation of Mutual Funds in India

The term **"regulation"** means a rule or directive made and controlled by an authority.

- Mutual funds are regulated by the **Securities and Exchange Board of India** (SEBI).
- In 1996, SEBI formulated the Mutual Fund Regulation.
- SEBI is additionally the apex regulator of capital markets and its intermediaries.
- The issuance and trading of capital market instruments also come under the purview of SEBI.
- Along with SEBI, mutual funds are regulated by RBI, Companies Act, Stock exchange, Indian Trust Act and Ministry of Finance.
- RBI acts as a regulator of Sponsors of bank-sponsored mutual funds, especially in the case of funds offering guaranteed returns.
- In order to provide a guaranteed returns scheme, a mutual fund needs to take approval from RBI.
- The Ministry of Finance acts as a supervisor of RBI and SEBI and appellate authority under SEBI regulations.
- Mutual funds can appeal to the Ministry of finance on the SEBI rulings.

Who regulates mutual funds in India

- Primarily, mutual funds are regulated by the Securities and Exchange Board of India (SEBI).
- A mutual fund should have the approval of RBI in order to provide a guaranteed returns scheme.
- The Ministry of Finance acts as a supervisor of RBI and SEBI and appellate authority under SEBI regulations.
- The Association of Mutual Funds in India (AMFI) has been made to develop this Mutual Fund Industry of India on professional and ethical lines and to enhance and maintain standards in all areas with a view to protect and promote the interests of mutual funds and their unitholders.

History of mutual funds in India

- In India, the industry dealing with mutual funds was established in the year **1963** with the development of the **Unit Trust of India** (UTI) which was an initiative of the Indian government and the Reserve Bank of India.
- The SBI Mutual Fund became the first NON-UTI mutual fund in India in the year 1987.
- The year 1993 heralded a new era in this industry of mutual funds as it was marked by the entry of private companies.
- The SEBI Mutual Fund Regulations came into being in 1996 after the passing of the Securities and Exchange Board of India (SEBI) Act of 1992.
- After this, the Mutual fund companies have extended and grown exponentially with the help of foreign institutions setting companies in India through joint ventures and properties.
- The **Association of Mutual Funds in India** (AMFI), a non-profit organization, was founded in 1995 as the industry developed. It was formed with the objective of promoting healthy and ethical marketing practices in the mutual fund industry of India.
- SEBI has made the certificate of AMFI mandatory for all those who are engaged in marketing mutual fund products.

Objective of mutual funds

The objectives of mutual funds are as follows:

- It helps in generating an additional source of income other than the general earnings.
- It helps in financing some of the future needs a person dream of, such as buying a home, post-retirement plans, education of children and their education, legacy planning, etc.
- It can help in increasing the savings a person possesses.
- It is useful in reducing tax liabilities.
- It helps in protecting your savings from inflation.

A mutual fund is a commercial product that invests in stocks or bonds.
A mutual fund is a pool of investment which is managed professionally for the purpose of purchasing various securities and culminating them into a strong portfolio that will give you attractive returns over and it will be above the risk-free returns which are currently being offered by the market.
If you own a mutual fund then it is like getting a slice of an apple. Just like that the investors get units of the fund which are in proportion to their investments.

For example, if there is a mutual fund that has total assets of $5000 and someone invests $500,he/she will receive 10% units of that fund.

Advantages of mutual funds

- It offers you professional management. Through mutual funds, investors get accessto the professional money managers who have expertise and experience in the field of buying, selling and monitoring investments by the investors.
- It helps you in holding a wide variety of shares at a much lower price than you really could own by yourself. If one investment in the Fund decreases in value that does notmean that the other will also be decreased, it may increase as well. By holding shares in the market you can take advantage of the changing environment in the industry. It helps in diversification.
- It gives opportunities to the small investors to take part in the professional asset management and they can have low investment minimums.
- Most of the mutual funds allow investors to deal with shares on any business day. Many funds provide you with an automatic purchase program. It is according to the convenience of the investors and helps them in gaining the best out of the money invested.

Mutual fund benefits

There are various benefits of investing in Mutual Funds, such as:

- The higher level of diversification since the basket of a portfolio will be aimed at spreading the investment in order to offer protection against concentration risks.
- They provide regular liquidity as shareholders of open-ended funds and unit investment trusts may sell their holdings back to the fund at regular intervals at a price equal to the NAV of the fund’s holdings.
- Managed by professional investors who have rich experience in investment and can understand the nerves of the market.
- Since mutual funds are regulated by a Government body i.e. AMFI in India, it offers protection and comfort to the investors before considering investment opportunity.
- All mutual funds are required to report the same level of information to the investors which makes it relatively easier for comparison in case of diversification.
- These funds provide regular reports of their performance and are also easily available on the internet to understand past trends as well as the strategies implemented.

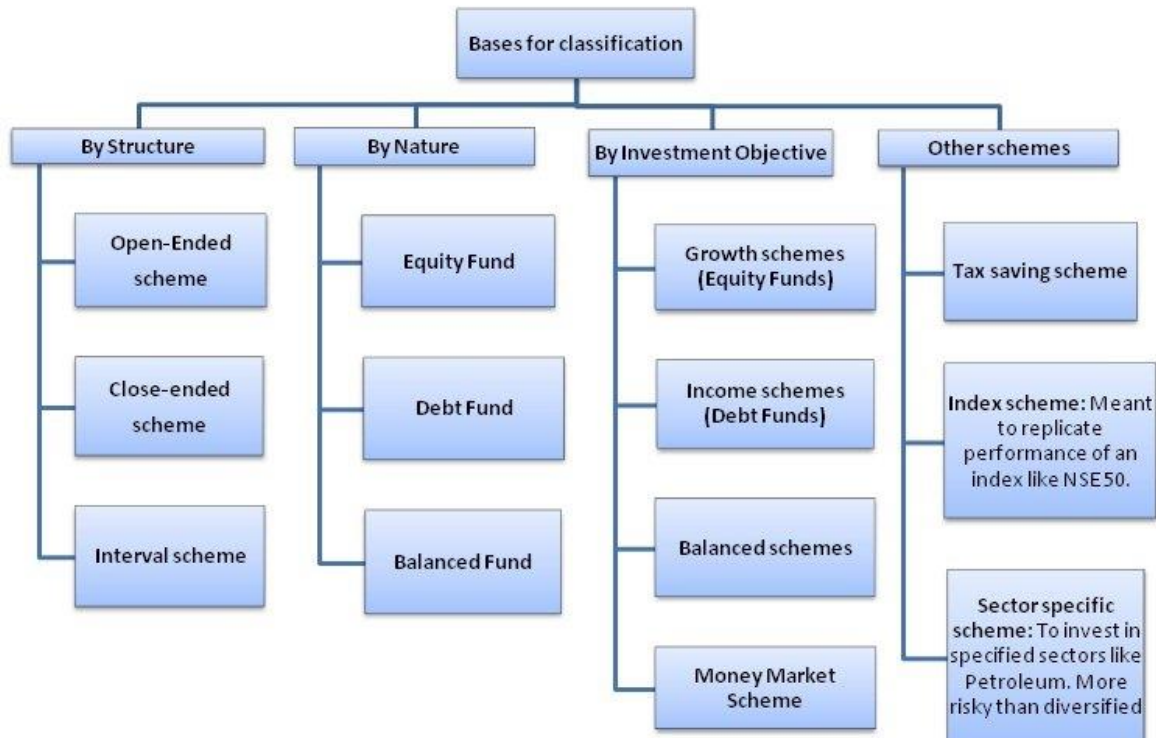
Investing mutual funds in India

- After submitting an application form along with a cheque or bank draft at the branch office or designated Investor Service Centres (ISC) of mutual Funds or Registrar & Transfer Agents one can invest in mutual funds.
- Investment can also be made online through the websites of the respective mutual funds.
- One may also invest through a Mutual Fund Distributor registered with AMFI or choose to invest directly.
- A Mutual Fund Distributor can be – an individual or a non-individual entity e.g. Banks etc.

Association of mutual funds in India

The Association of Mutual Funds in India has been established to develop the industry of Mutualfunds in India. Its aim is to make this industry on professional, ethical and healthy lines. This is done to enhance this industry and maintain standards so that the interests of the shareholders are promoted and protected.
AMFI was incorporated on 22nd August 1995 as a non-profit organization.
It is an association of SEBI registered mutual funds in India of all the registered Asset Management Companies.

Classification of Mutual funds:



1. Based on Asset Class

The classification of mutual funds based on asset class is as follows:

Equity Funds

Equity funds primarily invest in stocks, and hence go by the name of stock funds as well. They invest the money pooled in from various investors from diverse backgrounds into shares/stocks of different companies. The gains and losses associated with these funds depend solely on how the invested shares perform (price-hikes or price-drops) in the stock market. Also, equity funds have the potential to generate significant returns over a period. Hence, the risk associated with these funds also tends to be comparatively higher.

Debt Funds

Debt funds invest primarily in fixed-income securities such as bonds, securities and treasury bills. They invest in various fixed income instruments such as Fixed Maturity Plans (FMPs), Gilt Funds, Liquid Funds, Short-Term Plans, Long-Term Bonds and Monthly Income Plans, among others. Since the investments come with a fixed interest rate and maturity date, it can be a great option for passive investors looking for regular income (interest and capital appreciation) with minimal risks.

Money Market Funds

Investors trade stocks in the stock market. In the same way, investors also invest in the money market, also known as capital market or cash market. The government runs it in association with banks, financial institutions and other corporations by issuing money market securities like bonds, T-bills, dated securities and certificates of deposits, among others. The fund manager invests your money and disburses regular dividends in return. Opting for a short-term plan (not more than 13 months) can lower the risk of investment considerably on such funds.

Hybrid Funds

As the name suggests, hybrid funds (Balanced Funds) is an optimum mix of bonds and stocks, thereby bridging the gap between equity funds and debt funds. The ratio can either be variable or fixed. In short, it takes the best of two mutual funds by distributing, say, 60% of assets in stocks and the rest in bonds or vice versa. Hybrid funds are suitable for investors looking to take more risks for 'debt plus returns' benefit rather than sticking to lower but steady income schemes.

2. Based on Investment Goals

Here are the different types of mutual funds based on investment goals:

Growth Funds

Growth funds usually allocate a considerable portion in shares and growth sectors, suitable for investors (mostly Millennials) who have a surplus of idle money to be distributed in riskier plans (albeit with possibly high returns) or are positive about the scheme.

Income Funds

Income funds belong to the family of debt mutual funds that distribute their money in a mix of bonds, certificate of deposits and securities among others. Helmed by skilled fund managers who keep the portfolio in tandem with the rate fluctuations without compromising on the portfolio's creditworthiness, income funds have historically earned investors better returns than deposits. They are best suited for risk-averse investors with a 2-3 years perspective.

Liquid Funds

Like income funds, liquid funds also belong to the debt fund category as they invest in debt instruments and money market with a tenure of up to 91 days. A highlighting feature that differentiates liquid funds from other debt funds is the way the Net Asset Value is calculated. The NAV of liquid funds is calculated for 365 days (including Sundays) while for others, only business days are considered.

Tax-Saving Funds

ELSS or Equity Linked Saving Scheme, over the years, have climbed up the ranks among all categories of investors. Not only do they offer the benefit of wealth maximisation while allowing you to save on taxes, but they also come with the lowest lock-in period of only three years. Investing predominantly in equity (and related products), they are known to generate non-taxed returns in the range 14-16%. These funds are best-suited for salaried investors with a long-term investment horizon.

Aggressive Growth Funds

Slightly on the riskier side when choosing where to invest in, the Aggressive Growth Fund is designed to make steep monetary gains. Though susceptible to market volatility, one can decide on the fund as per the beta (the tool to gauge the fund's movement in comparison with the market). Example, if the market shows a beta of 1, an aggressive growth fund will reflect a higher beta, say, 1.10 or above.

Capital Protection Funds

If protecting the principal is the priority, Capital Protection Funds serves the purpose while earning relatively smaller returns (12% at best). The fund manager invests a portion of the money in bonds or Certificates of Deposits and the rest towards equities. Though the probability of incurring any loss is quite low, it is advised to stay invested for at least three years (closed-ended) to safeguard your money, and also the returns are taxable.

Fixed Maturity Funds

Many investors choose to invest towards the of the FY ends to take advantage of triple indexation, thereby bringing down tax burden. If uncomfortable with the debt market trends and related risks, Fixed Maturity Plans (FMP) – which invest in bonds, securities, money market etc. – present a great opportunity. As a close-ended plan, FMP functions on a fixed maturity period, which could range from one month to five years (like FDs). The fund manager ensures that the money is allocated to an investment with the same tenure, to reap accrual interest at the time of FMP maturity.

Pension Funds

Putting away a portion of your income in a chosen pension fund to accrue over a long period to secure you and your family's financial future after retiring from regular employment can take care of most contingencies (like a medical emergency or children's wedding). Relying solely on savings to get through your golden years is not recommended as savings (no matter how big) get used up. EPF is an example, but there are many lucrative schemes offered by banks, insurance firms etc.

3. Based on Structure

Mutual funds are also categorised based on different attributes (like risk profile, asset class, etc.). The structural classification – open-ended funds, close-ended funds, and interval funds – is quite broad, and the differentiation primarily depends on the flexibility to purchase and sell the individual mutual fund units.

Open-Ended Funds

Open-ended funds do not have any particular constraint such as a specific period or the number of units which can be traded. These funds allow investors to trade funds at their convenience and exit when required at the prevailing NAV (Net Asset Value). This is the sole reason why the unit capital continually changes with new entries and exits. An open-ended fund can also decide to stop taking in new investors if they do not want to (or cannot manage significant funds).

Closed-Ended Funds

In closed-ended funds, the unit capital to invest is pre-defined. Meaning the fund company cannot sell more than the pre-agreed number of units. Some funds also come with a New Fund Offer (NFO) period; wherein there is a deadline to buy units. NFOs comes with a pre-defined maturity tenure with fund managers open to any fund size. Hence, SEBI has mandated that investors be given the option to either repurchase option or list the funds on stock exchanges to exit the schemes.

Interval Funds

Interval funds have traits of both open-ended and closed-ended funds. These funds are open for purchase or redemption only during specific intervals (decided by the fund house) and closed the rest of the time. Also, no transactions will be permitted for at least two years. These funds are suitable for investors looking to save a lump sum amount for a short-term financial goal, say, in 3-12 months.

4. Based on Risk

The mutual fund types based on risk are:

Very Low-Risk Funds

Liquid funds and ultra-short-term funds (one month to one year) are known for its low risk, and understandably their returns are also low (6% at best). Investors choose this to fulfil their short-term financial goals and to keep their money safe through these funds.

Low-Risk Funds

In the event of rupee depreciation or unexpected national crisis, investors are unsure about investing in riskier funds. In such cases, fund managers recommend putting money in either one or a combination of liquid, ultra short-term or arbitrage funds. Returns could be 6-8%, but the investors are free to switch when valuations become more stable.

Medium-risk Funds

Here, the risk factor is of medium level as the fund manager invests a portion in debt and the rest in equity funds. The NAV is not that volatile, and the average returns could be 9-12%.

High-Risk Funds

Suitable for investors with no risk aversion and aiming for huge returns in the form of interest and dividends, high-risk mutual funds need active fund management. Regular performance reviews are mandatory as they are susceptible to market volatility. You can expect 15% returns, though most high-risk funds generally provide up to 20% returns.

5. Specialized Mutual Funds

These mutual funds are based on specific industries:

Sector Funds

Sector funds invest solely in one specific sector, theme-based mutual funds. As these funds invest only in specific sectors with only a few stocks, the risk factor is on the higher side. Investors are advised to keep track of the various sector-related trends. Sector funds also deliver great returns. Some areas of banking, IT and pharma have witnessed huge and consistent growth in the recent past and are predicted to be promising in future as well.

Index Funds

Suited best for passive investors, index funds put money in an index. A fund manager does not manage it. An index fund identifies stocks and their corresponding ratio in the market index and put the money in similar proportion in similar stocks. Even if they cannot outdo the market (which is the reason why they are not popular in India), they play it safe by mimicking the index performance.

Funds of Funds

A diversified mutual fund investment portfolio offers a slew of benefits, and 'Funds of Funds' also known as multi-manager mutual funds are made to exploit this to the tilt – by putting their money in diverse fund categories. In short, buying one fund that invests in many funds rather than investing in several achieves diversification while keeping the cost down at the same time.

Emerging market Funds

To invest in developing markets is considered a risky bet, and it has undergone negative returns too. India, in itself, is a dynamic and emerging market where investors earn high returns from the domestic stock market. Like all markets, they are also prone to market fluctuations. Also, from a longer-term perspective, emerging economies are expected to contribute to the majority of global growth in the following decades.

International/ Foreign Funds

Favoured by investors looking to spread their investment to other countries, foreign mutual funds can get investors good returns even when the Indian Stock Markets perform well. An investor can employ a hybrid approach (say, 60% in domestic equities and the rest in overseas funds) or a feeder approach (getting local funds to place them in foreign stocks) or a theme-based allocation (e.g., gold mining).

Global Funds

Aside from the same lexical meaning, global funds are quite different from International Funds. While a global fund chiefly invests in markets worldwide, it also includes investment in your home country. The International Funds concentrate solely on foreign markets. Diverse and universal in approach, global funds can be quite risky to owing to different policies, market and currency variations, though it does work as a break against inflation and long-term returns have been historically high.

Real Estate Funds

Despite the real estate boom in India, many investors are still hesitant to invest in such projects due to its multiple risks. Real estate fund can be a perfect alternative as the investor will be an indirect participant by putting their money in established real estate companies/trusts rather than projects. A long-term investment negates risks and legal hassles when it comes to purchasing a property as well as provide liquidity to some extent.

Commodity-focused Stock Funds

These funds are ideal for investors with sufficient risk-appetite and looking to diversify their portfolio. Commodity-focused stock funds give a chance to dabble in multiple and diverse trades. Returns, however, may not be periodic and are either based on the performance of the stock company or the commodity itself. Gold is the only commodity in which mutual funds can invest directly in India. The rest purchase fund units or shares from commodity businesses.

Market Neutral Funds

For investors seeking protection from unfavourable market tendencies while sustaining good returns, market-neutral funds meet the purpose (like a hedge fund). With better risk-adaptability, these funds give high returns where even small investors can outstrip the market without stretching the portfolio limits.

Inverse/Leveraged Funds

While a regular index fund moves in tandem with the benchmark index, the returns of an inverse index fund shift in the opposite direction. It is nothing but selling your shares when the stock goes down, only to repurchase them at an even lesser cost (to hold until the price goes up again).

Asset Allocation Funds

Combining debt, equity and even gold in an optimum ratio, this is a greatly flexible fund. Based on a pre-set formula or fund manager's inferences based on the current market trends, asset allocation funds can regulate the equity-debt distribution. It is almost like hybrid funds but requires great expertise in choosing and allocation of the bonds and stocks from the fund manager.

Gift Funds

Yes, you can also gift a mutual fund or a SIP to your loved ones to secure their financial future.

Exchange-traded Funds

It belongs to the index funds family and is bought and sold on exchanges. Exchange-traded Funds have unlocked a new world of investment prospects, enabling investors to gain extensive exposure to stock markets abroad as well as specialised sectors. An ETF is like a mutual fund that can be traded in real-time at a price that may rise or fall many times in a day.

Financial Instruments

Introduction to derivatives

The emergence of the market for derivative products, most notably forwards, futures and options, can be traced back to the willingness of risk-averse economic agents to guard themselves against uncertainties arising out of fluctuations in asset prices. By their very nature, the financial markets are marked by a very high degree of volatility. Through the use of derivative products, it is possible to partially or fully transfer price risks by lockingin asset prices. As instruments of risk management, these generally do not influence the fluctuations in the underlying asset prices. However, by locking in asset prices, derivative products minimize the impact of fluctuations in asset prices on the profitability and cash flow situation of risk- averse investors.

DERIVATIVES DEFINED

Derivative is a product whose value is derived from the value of one or more basic variables, called bases (underlying asset, index, or reference rate), in a contractual manner. The underlying asset can be equity, forex, commodity or any other asset. For example, wheat farmers may wish to sell their harvest at a future date to eliminate the risk of a change in prices by that date. Such a transaction is an example of a derivative. The price of this derivative is driven by the spot price of wheat which is the "underlying".

In the Indian context the Securities Contracts (Regulation) Act, 1956 (SCRA) defines "derivative" to include

1. A security derived from a debt instrument, share, loan whether secured or unsecured, risk instrument or contract for differences or any other form of security.

2. A contract which derives its value from the prices, or index of prices, of underlying securities.

Over the last three decades, the derivatives market has seen a phenomenal growth. A large variety of derivative contracts have been launched at exchanges across the world. Some of the factors driving the growth of financial derivatives are:

Factors driving the growth of derivatives

a) Increased volatility in asset prices in financial markets,

b) Increased integration of national financial markets with the international markets,

c) Marked improvement in communication facilities and sharp decline in their costs.

d) Development of more sophisticated risk management tools, providing economic agents a wider choice of risk management strategies, and

e) Innovations in the derivatives markets, which optimally combine the risks and returns over a large number of financial assets leading to higher returns, reduced risk as well as transactions costs as compared to individual financial assets.

DERIVATIVE PRODUCTS

Derivative contracts have several variants. The most common variants are forwards, futures, options and swaps. We take a brief look at various derivatives contracts that have come to be used.

Forwards:

A forward contract is a customized contract between two entities, where settlement takes placeon a specific date in the future at today's pre-agreed price.

Futures:

A futures contract is an agreement between two parties to buy or sell an asset at a certain time in the future at a certain price. Futures contracts are special types of forward contracts in the sense that the former are standardized exchange-traded contracts.

Options:

Options are of two types – calls and puts. Calls give the buyer the right but not the obligation to buy a given quantity of the underlying asset, at a given price on or before a given future date. Puts give the buyer the right, but not the obligation to sell a given quantity of the underlying asset at a given price on or before a given date. Warrants: Options generally have lives of upto one year, the majority of options traded on options exchanges having a maximum maturity of nine months. Longer-dated options are called warrants and are generally traded over-the- counter.

LEAPS:

The acronym LEAPS means Long-Term Equity Anticipation Securities. These are options havinga maturity of upto three years.

Baskets:

Basket options are options on portfolios of underlying assets. The underlying asset is usually a moving average of a basket of assets. Equity index options are a form of basket options.

Swaps:

Swaps are private agreements between two parties to exchange cash flows in the future according to a prearranged formula. They can be regarded as portfolios of forward contracts. The two commonly used swaps are:

- Interest rate swaps: This entail swapping only the interest related cash flows between the parties in the same currency.
- Currency swaps: These entail swapping both principal and interest between the parties, with the cash flows in one direction being in a different currency than those in the opposite direction. **Swaptions:** Swaptions are options to buy or sell a swap that will become operative at the expiryof the options. Thus, a swaption is an option on a forward swap. Rather than have calls and puts, the swaptions market has receiver swaptions and payer swaptions. A receiver swaption is an option to receive fixed and pay floating. A payer swaption is an option to pay fixed and receive floating

PARTICIPANTS IN THE DERIVATIVES MARKETS

The following three broad categories of participants – hedgers, speculators, and arbitrageurs trade in the derivatives market. Hedgers face risk associated with the price of an asset. They use futures or options markets to reduce or eliminate this risk. Speculators wish to bet on future movements in the price of an asset. Futures and options contracts can give them an extra leverage; that is, they can increase both the potential gains and potential losses in a speculative venture. Arbitrageurs are in business to take advantage of a discrepancy between prices in two different markets. If, for example, they see the futures price of an asset getting out of line with the cash price, they will take offsetting positions in the two markets to lock in a profit.

ECONOMIC FUNCTION OF THE DERIVATIVE MARKET

Inspite of the fear and criticism with which the derivative markets are commonly looked at, these markets perform a number of economic functions.

1. Prices in an organized derivatives market reflect the perception of market participants about the future and lead the prices of underlying to the perceived future level. The prices of derivatives converge with the prices of the underlying at the expiration of the derivative contract. Thus derivatives help in discovery of future as well as current prices.

2. The derivatives market helps to transfer risks from those who have them but may not like them to those who have an appetite for them.

3. Derivatives, due to their inherent nature, are linked to the underlying cash markets. With the introduction of derivatives, the underlying market witnesses higher trading volumes because of participation by more players who would not otherwise participate for lack of an arrangement to transfer risk.

4. Speculative trades shift to a more controlled environment of derivatives market. In the absence of an organized derivatives market, speculators trade in the underlying cashmarkets. Margining, monitoring and surveillance of the activities of various participants become extremely difficult in these kind of mixed markets.

History of derivatives markets

Early forward contracts in the US addressed merchants' concerns about ensuring that there were buyers and sellers for commodities. However 'credit risk" remained a serious problem. To deal with this problem, a group of Chicago businessmen formed the Chicago Board of Trade (CBOT) in 1848. The primary intention of the CBOT was to provide a centralized location known in advance for buyers and sellers to negotiate forward contracts. In 1865, the CBOT went one step further and listed the first 'exchange traded" derivatives contract in the US, these contracts were called 'futures contracts". In 1919, Chicago Butter and Egg Board, a spin-off of CBOT, was reorganized to allow futures trading. Its name was changed to Chicago Mercantile Exchange (CME). The CBOT and the CME remain the two largest organized futures exchanges, indeed the two largest "financial" exchanges of any kind in the world today.

The first stock index futures contract was traded at Kansas City Board of Trade. Currently the most popular stock index futures contract in the world is based on S&P 500 index, traded on Chicago Mercantile Exchange. During the mid eighties, financial futures became the most active derivative instruments generating volumes many times more than the commodity futures. Index futures, futures on T-bills and Euro-Dollar futures are the three most popular futures contracts traded today. Other popular international exchanges that trade derivatives are LIFFE in England, DTB in Germany, SGX in Singapore, TIFFE in Japan, MATIF in France, Eurex etc.

An important incidental benefit that flows from derivatives trading is that it acts as a catalyst for new entrepreneurial activity. The derivatives have a history of attracting many bright, creative, well-educated people with an entrepreneurial attitude. They often energize others to create new businesses, new products and new employment opportunities, the benefit of which are immense. In a nut shell, derivatives markets help increase savings and investment in the long run. Transfer of risk enables market participants to expand their volume of activity

EXCHANGE-TRADED vs. OTC DERIVATIVES MARKETS

Derivatives have probably been around for as long as people have been trading with one another. Forward contracting dates back at least to the 12th century, and may well have been around before then. Merchants entered into contracts with one another for future delivery of specified amount of commodities at specified price. A primary motivation for pre-arranging a buyer or seller for a stock of commodities in early forward contracts was to lessen the possibility that large swings would inhibit marketing the commodity after a harvest. As the word suggests, **derivatives that trade on an exchange are called exchange traded derivatives, whereas privately negotiated derivative contracts are called OTC contracts.** The OTC derivatives markets have witnessed rather sharp growth over the last few years, which has accompanied the modernization of commercial and investment banking and globalisation of financial activities. The recent developments in information technology have contributed to a great extent to these developments. While both exchange-traded and OTC derivative contracts offer many benefits, the former have rigid structures compared to the latter. It has been widely discussed that the highly leveraged institutions and their OTC derivative positions were the main cause of turbulence in financial markets in 1998. These episodes of turbulence revealed the risks posed to market stability originating in features of OTC derivative instruments and markets.

The OTC derivatives markets have the following features compared to exchange traded derivatives:

1. The management of counter-party (credit) risk is decentralized and located within individual institutions,
2. There are no formal centralized limits on individual positions, leverage, or margining,
3. There are no formal rules for risk and burden-sharing,
4. There are no formal rules or mechanisms for ensuring market stability and integrity, and for safeguarding the collective interests of market participants, and
5. The OTC contracts are generally not regulated by a regulatory authority and the exchange's self-regulatory organization, although they are affected indirectly by national legal systems, banking supervision and market surveillance.

Some of the features of OTC derivatives markets embody risks to financial market stability. The following features of OTC derivatives markets can give rise to instability in institutions, markets, and the international financial system:

- the dynamic nature of gross credit exposures;
- information asymmetries;
- the effects of OTC derivative activities on available aggregate credit;
- the high concentration of OTC derivative activities in major institutions; and
- the central role of OTC derivatives markets in the global financial system.

Instability arises when shocks, such as counter-party credit events and sharp movements in asset prices that underlie derivative contracts occur, which significantly alter the perceptions of current and potential future credit exposures. When asset prices change rapidly, the size and configuration of counter-party exposures can become unsustainably large and provoke a rapid unwinding of positions.

There has been some progress in addressing these risks and perceptions. However, the progress has been limited in implementing reforms in risk management, including counterparty, liquidity and operational risks, and OTC derivatives markets continue to pose a threat to international financial stability. The problem is more acute as heavy reliance on OTC derivatives creates the possibility of systemic financial events, which fall outside the more formal clearing house structures. Moreover, those who provide OTC derivative products, hedge their risks through the use of exchange traded derivatives. In view of the inherent risks associated with OTC derivatives, and their dependence on exchange traded derivatives, Indian law considers them illegal.

BSE's Derivatives Market

BSE created history on June 9, 2000 by launching the first Exchange-traded Index Derivative Contract i.e. futures on the capital market benchmark index – the BSE Sensex. The inauguration of trading was done by Prof. J.R. Varma, member of SEBI and Chairman of the committee which formulated the risk containment measures for the derivatives market. The first historical trade of 5 contracts of June series was done that day between the Members Kaji & Maulik Securities Pvt. Ltd. And Emkay Share & Stock Brokers Ltd. At the rate of 4755.

In sequence of product innovation, BSE commenced trading in Index Options on Sensex on June 1, 2001, Stock Options were introduced on 31 stocks on July 9, 2001 and Single Stock Futures were launched on November 9, 2002.

September 13, 2004 marked another milestone in the history of the Indian capital market, when BSE launched Weekly Options, a unique product unparalleled worldwide in the derivatives markets. BSE permitted trading in weekly contracts in options in the shares of four leading companies namely Reliance Industries, Satyam, State Bank of India, and TISCO (now Tata Steel) in addition to the flagship index-Sensex.

ROADMAP TO BECOME A MEMBER OF THE BSE DERIVATIVES SEGMENT

Derivatives Membership application forms available at BSE India Website or with the Relationship Managers (BDM Department)

If any query, feel free to contact Relationship Managers (BDMDepartment)

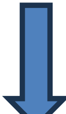
Choose the type of Membership you want to apply for SeeAnnexure 1 & Annexure 2

The applications forms duly filled along with the required documents should be submitted to the Membership Services &Development – (MSD)

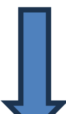
Application will be placed before the BSE Committee of Executives

BSE Committee of Executives may call you for a personal interview

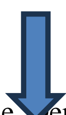
Applications approved by BSE Committee of Executives will besent to SEBI for approval and registration



After the BSE Committee of Executives approval, the MSD will issue election and admission letter to the Member.



After SEBI 's Approval
After receipt of SEBI registration, applicants account will bedebited by Rs. 50,000.00 in case of Clearing Membership



For Commencement of Business in the Derivatives Segment, please contact Relationship Managers (BDM Department)

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START TRADING IN DERIVATIVES

Types of Memberships in the BSE Derivatives Segment

Trading Member

- A Trading Member should be an existing Member of BSE cash segment.
- A Trading Member has only trading rights but no clearing rights. He has to associate with a Clearing Member to clear his trades.

Trading-Cum-Clearing Member

- A Trading-cum-Clearing Member should be an existing Member of BSEcash segment.
- A TCM can trade and clear his trades. In addition, he can also clear the trades of his associate Trading Members.

Professional Clearing Member / Custodial Clearing Member:

- A Professional Clearing Member need not be a Member of BSE cash segment.
- A PCM has no trading rights and has only clearing rights i.e. he just clears the trades of his associate Trading Members & institutional clients.

Limited Trading Member

- A Limited Trading Member need not be a Member of BSE cash segment.
- A LTM has only trading rights and no clearing rights. He has to associate with a Clearing Member to clear his trades.

Self-Clearing Member

- A Self Clearing Member should be an existing Member of the BSE cashsegment.
- An SCM can clear and settle trades on his own account or on account of his client only and not for any other Trading Member.

Foreign Exchange

Foreign exchange, or forex, is the conversion of one country's currency into another. In a free economy, a country's currency is valued according to the laws of supply and demand. In other words, a currency's value can be pegged to another country's currency, such as the U.S. dollar, or even to a basket of currencies. A country's currency value may also be set by the country's government.

Foreign Exchange Rate is defined as the price of the domestic currency with respect to another currency. The purpose of foreign exchange is to compare one currency with another for showing their relative values.

Foreign exchange rate can also be said to be the rate at which one currency is exchanged with another or it can be said as the price of one currency that is stated in terms of another currency.

Exchange rates of a currency can be either fixed or floating. Fixed exchange rate is determined by the central bank of the country while the floating rate is determined by the dynamics of market demand and supply.

Factors Affecting the Exchange Rate

- Exchange rate is impacted by some factors which can be economic, political or psychological as well.
- **The economic factors** that are known to cause variation in foreign exchange rates are inflation, trade balances, government policies.
- **Political factors** that can cause a change in the foreign exchange rate are political unrest or instability in the country and any kind of political conflict.
- **Psychological factors** that impact the forex rate is the psychology of the participants involved in foreign exchange.

Types of Exchange Rate Systems

There are three types of exchange rate systems that are in effect in the foreign exchange market and these are as follows:

1. Fixed exchange rate System or Pegged exchange rate system: The pegged exchange rate or the fixed exchange rate system is referred to as the system where the weaker currency of the two currencies in question is pegged or tied to the stronger currency.

Fixed exchange rate is determined by the government of the country or central bank and is not dependent on market forces.

To maintain the stability in the currency rate, there is purchasing of foreign exchange by the central bank or government when the rate of foreign currency increases and selling foreign currency when the rates fall.

This process is known as pegging and that’s why the fixed exchange rate system is also referred to as the pegged exchange rate system.

Advantages of Fixed Exchange Rate System

Following are some of the advantages of fixed exchange rate system

1. It ensures stability in foreign exchange that encourages foreign trade.
2. There is a stability in the value of currency which protects it from market fluctuations.
3. It promotes foreign investment for the country.
4. It helps in maintaining stable inflation rates in an economy.

Disadvantages of Fixed Exchange Rate System

Following are some of the disadvantages of the fixed exchange rate system

1. There is a constant need for maintaining foreign reserves in order to stabilise the economy.
2. The government may lack the flexibility that is required to bounce back in case an economic shock engulfs the economy.

2. Flexible Exchange Rate System: Flexible exchange rate system is also known as the floating exchange rate system as it is dependent on the market forces of supply and demand.There is no intervention of the central banks or the government in the floating exchange rate system.

Advantages of Floating Exchange Rate System

Following are the advantages of the floating exchange rate system

1. There is no need to maintain foreign reserves in this exchange system.
2. Any deficiencies or surplus in Balance of Payment is automatically corrected in this system.

Disadvantages of Floating Exchange Rate System

Following are some of the disadvantages of the floating exchange rate system

1. It encourages speculation that may lead to fluctuations in the exchange rate of currencies in the market.
2. If the fluctuations in exchange rates are too much it can cause issues with movement of capital between countries and also impact foreign trade.
3. It will discourage any type of international trade and foreign investment.

3. Managed floating exchange rate system: Managed floating exchange rate system is the combination of the fixed (managed) and floating exchange rate systems. Under this system the central banks intervene or participate in the purchase or selling of the foreign currencies.

Asset Classes of Financial Instruments

Beyond the types of financial instruments listed above, financial instruments can also be categorized into two asset classes. The two asset classes of financial instruments are debt-based financial instruments and equity-based financial instruments.

1. Debt-Based Financial Instruments

Debt-based financial instruments are categorized as mechanisms that an entity can use to increase the amount of capital in a business. Examples include bonds, debentures, mortgages, U.S. treasuries, credit cards, and line of credits (LOC).

They are a critical part of the business environment because they enable corporations to increase profitability through growth in capital.

2. Equity-Based Financial Instruments

Equity-based financial instruments are categorized as mechanisms that serve as legal ownership of an entity. Examples include common stock, convertible debentures, preferred stock, and transferable subscription rights.

They help businesses grow capital over a longer period of time compared to debt-based but benefit in the fact that the owner is not responsible for paying back any sort of debt.

A business that owns an equity-based financial instrument can choose to either invest further in the instrument or sell it whenever they deem necessary.

ASSIGNMENT FOR UNIT 2

1. What further steps can be taken to enhance the efficiency and transparency of the money market in India?
2. What is the importance of the Securities and Exchange Board of India (SEBI) in regulating and overseeing capital markets?
3. What regulatory measures are in place to ensure the transparency, accountability, and protection of investors in mutual funds in India?
4. What role do these financial instruments play in portfolio management and risk diversification for investors?
5. Evaluate the chart reading among two sectors (Automobile and banking)

UNIT- III

Principles and Practices of Insurance

Concept

Insurance is a risk management tool that involves transferring the risk of a loss from an individual or entity to an insurance company. The principles and practices of insurance are built on the following concepts:

- **Risk assessment:** The first step in the insurance process is to assess the risk of loss. This involves evaluating the likelihood and potential impact of an event that could causea loss.
- **Pooling of risk:** Insurance companies pool risk by aggregating many policyholders' premiums into a common pool. This allows for the spread of risk and reduces theimpact of any one loss.
- **Premiums:** Policyholders pay a regular fee, called a premium, to the insurance company in exchange for protection against loss. Premiums are calculated based on the level of risk associated with the policy.
- **Underwriting:** The process of evaluating and classifying a risk to determine the terms and conditions of insurance coverage. This includes evaluating the policyholder's application, past claims history, and other factors that could impact the risk of loss.
- **Claims handling:** The process of evaluating and settling claims made by policyholders for covered losses.
- **Reserving:** Insurance companies set aside funds, known as reserves, to pay for claims as they arise. These reserves are calculated based on estimates of the expected frequency and severity of losses.
- **Reinsurance**: Insurance companies may also transfer some of their risk to other insurance companies through the use of reinsurance. This allows insurance companies to manage their overall risk exposure.
- **Regulation:** Insurance is regulated by governments to ensure that insurancecompanies have the financial resources to pay claims and to protect policyholders from unfair practices.

Principles & Types of Insurance

Insurance is a contract between the insured and the insurance company, in which the insurance company agrees to provide financial protection or reimbursement to theinsured in exchange for payment of premiums.

The following are some of the most important principles of insurance:

1. Insurable interest: The insured must have a valid reason for seeking insurance coverage, such as ownership of an asset or responsibility for someone else's well-being.
2. Utmost good faith: The insured must disclose all relevant and material information to the insurance company when applying for insurance.
3. Indemnity: Insurance is intended to restore the insured to the same financial position they were in before the loss occurred.
4. Proximate cause: The cause of loss must be the dominant or predominant factor in producing the loss.
5. Loss minimization: The insured must take reasonable steps to minimize the extent of their loss.

Life Insurance

Life insurance is a type of insurance policy that provides financial support to the beneficiaries of the insured person in the event of their death. The purpose of lifeinsurance is to provide financial security to the beneficiaries and help them cope with the financial consequences of the insured person's death

Definition: Life insurance is a contract between the policyholder and the insurance company, in which the insurance company agrees to pay a death benefit to the beneficiaries of the policyholder in exchange for the payment of premiums.

Types of life insurance: There are two main types of life insurance policies: term life insurance and permanent life insurance.

- **Term life insurance**: Provides coverage for a specified term, usually 1, 10, 20, or 30 years. If the insured person dies within the term of the policy, the death benefit is paidto the beneficiaries. If the insured person does not die within the term of the policy, the policy simply expires and no death benefit is paid.
- **Permanent life insurance**: Provides coverage for the entire life of the insured person. There are several types of permanent life insurance policies, including whole life, universal life, and variable life. Unlike term life insurance, permanent life insurance policies accumulate cash value over time, which the policyholder can access while they are still alive.

Purpose: The purpose of life insurance is to provide financial security to the beneficiaries of the policyholder in the event of their death.

Death benefit: The death benefit is the amount of money that the insurance company agrees to pay to the beneficiaries of the policyholder in the event of their death.

Premiums: The policyholder must pay a premium to the insurance company to maintain the life insurance policy. The premium is based on factors such as the policyholder's age, health, and death benefit amount.

Importance: Life insurance is important for people who have dependents who rely on their income for financial support. It helps to ensure that the dependents will be able to maintain their standard of living in the event of the policyholder's death.

Considerations: When choosing a life insurance policy, it is important to considerfactors such as the policyholder's age, health, and financial situation. The policyholder should also consider the death benefit amount they need to provide financial security to their beneficiaries and the premium they can afford to pay.

Regular review: It is important to review and update the life insurance policy regularlyto ensure that it continues to meet the policyholder's needs and the needs of their beneficiaries.

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Micro Insurance

Micro insurance is a type of insurance designed specifically for low-income individuals and families who are often excluded from traditional insurance markets. The aim of micro insurance is to provide coverage for risks such as death, illness, or injury, to help protect against financial hardship.

Some key features of micro insurance include:

- **Affordability**: Micro insurance products are designed to be affordable for low-income individuals and families, with low premiums and benefits that are appropriate for their needs.
- **Simplicity**: Micro insurance products are usually straightforward and easy to understand, with few complicated terms and conditions.
- **Accessibility**: Micro insurance is designed to be accessible to those who are traditionally excluded from the insurance market, such as people living in rural areas or those with limited financial resources.
- **Community**-based: Many micro insurance products are provided through community-based organizations, such as cooperatives or self-help groups, which helps to build trust and increase participation.
- **Innovative delivery**: Micro insurance products are often delivered through innovative channels, such as mobile phones or local agents,

Annuities

An annuity is a financial product that provides a stream of payments to an individual, usually in exchange for a lump sum of money. There are several types of annuities, including fixed annuities, variable annuities, and indexed annuities.

Key features of annuities include:

- **Guaranteed income:** An annuity provides a guaranteed stream of income for a specified period of time, or for the life of the annuity holder.
- **Tax benefits**: Some annuities provide tax benefits, such as tax-deferred growth or tax- free withdrawals.
- **Customizable:** Annuities can be customized to meet the needs of the individual, including the choice of payment frequency, investment options, and the length of the income stream.
- **Death benefit:** Some annuities include a death benefit that pays out to a designated beneficiary in the event of the annuity holder's death.
- **Risk management:** An annuity can help manage investment risk by providing a guaranteed income stream, which can be useful for those who are close to retirement or those who have a low tolerance for risk.

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Health Insurance

Health insurance is a type of insurance coverage that pays for medical and surgical expenses incurred by the insured. The main purpose of health insurance is to provide financial protection against high medical costs.

There are several types of health insurance plans, including:

- **Individual Health Insurance:** Coverage for one person, usually purchased by those who do not have employer-sponsored coverage.
- **Group Health Insurance:** Coverage for a group of people, typically offered through an employer or a professional organization.
- **HMO (Health Maintenance Organization):** A type of health insurance plan that typically requires individuals to choose a primary care physician and receive referrals to see specialists.
- **PPO (Preferred Provider Organization):** A type of health insurance plan that allows individuals to see any healthcare provider they choose, but offers lower out-of-pocket costs for using in-network providers.
- **POS (Point of Service) Plan:** A type of health insurance plan that combines features of HMOs and PPOs, offering more flexibility in choosing healthcare providers.

In addition to the above types, there are also government-sponsored health insurance programs such as Medicare and Medicaid, which provide coverage for eligibleindividuals.

Health insurance plans typically have copayments, deductibles, and coinsurance, which are cost-sharing arrangements that require individuals to pay a portion of their medical expenses. The exact details of these cost-sharing arrangements vary depending on the plan.

Overall, having health insurance is important for protecting against financial hardshipin the case of illness or injury. It is important to carefully consider one's health insurance options and choose a plan that best meets their needs.

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General Insurance

General insurance refers to insurance coverage for non-life or property and casualty risks. It provides financial protection against unexpected events, such as accidents, natural disasters, theft, and liability claims. Unlike life insurance, which provides financial protection for the policyholder in the event of death, general insurance provides financial protection for a variety of risks that individuals and businesses face.

In general insurance, the insurance company assesses the risk associated with the insured event and sets the premium based on that risk. The policyholder pays the premium, and in the event of a covered loss, the insurance company pays the claim.

It is important for individuals and businesses to understand the different types of general insurance products and choose the right coverage for their needs. This can help reduce the financial impact of unexpected events and provide peace of mind.

Types of General Insurance

Motor Insurance

Motor insurance, also known as auto insurance or car insurance, is a type of general insurance that provides financial protection for car owners in the event of an accident, theft, or other covered loss. It is required by law in most countries, and the minimum level of coverage may vary by jurisdiction.

Motor insurance typically covers the following:

- **Liability coverage -** This covers third-party claims for injury or property damage caused by the policyholder while driving their vehicle.
- **Collision coverage** - This covers damage to the policyholder's vehicle resulting from an accident with another vehicle or an object, regardless of who is at fault.
- **Comprehensive coverage** - This covers damage to the policyholder's vehicle from non-collision events, such as theft, fire, or natural disasters.
- **Personal injury protection (PIP) or medical payments coverage** - This covers medical expenses for the policyholder and their passengers in the event of an accident, regardless of who is at fault.
- **Uninsured/underinsured motorist coverage** - This covers the policyholder's expenses if they are involved in an accident with a driver who does not have insurance or does not have enough insurance to cover the damages.

Motor insurance, also known as auto insurance or car insurance, is a type of general insurance that provides financial protection for car owners against financial losses resulting from accidents, theft, or other incidents involving their vehicle.

The **main components** of a motor insurance policy include:

1. *Third-party liability coverage* - covers the policyholder against financial losses resulting from damage or injury to others in an accident involving their vehicle.
2. *Own damage coverage* - covers the policyholder against financial losses resulting from damage to their own vehicle, such as collision or theft.
3. *Personal accident cover* - provides financial protection for the policyholder and passengers in the event of injury or death in an accident involving their vehicle.

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Marine Insurance

Marine insurance is a type of general insurance that provides financial protection for shipping and transportation of goods by sea, air, or land. It covers the risks associated with the transportation of goods, including damage to or loss of the goods, and liability for damage or injury to others.

The main components of marine insurance include:

- **Hull insurance** - covers the policyholder against financial losses resulting from damage to the vessel or cargo ship.
- **Cargo insurance** - covers the policyholder against financial losses resulting from damage or loss of the goods being transported.
- **Liability insurance** - provides protection against legal claims for damage or injury to others, such as maritime liability insurance for ships and their crew.
- **Freight insurance** - covers the policyholder against financial losses resulting from the failure of the carrier to deliver the goods as agreed.

The premium for marine insurance is determined based on several factors, includingthe type of goods being transported, the mode of transportation, the route, and the value of the goods.

It is important for businesses involved in shipping and transportation of goods to understand the different components of marine insurance and to choose a policy that meets their needs and budget. Having marine insurance can provide peace of mind and protect against financial losses resulting from damage or loss of goods during transportation.

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Property Insurance

Property insurance is a type of general insurance that provides financial protection for individuals and businesses against losses resulting from damage to or loss of their property. The property can be a home, a commercial building, personal possessions, or other real or personal property.

The main types of property insurance include:

- **Homeowners insurance** - covers damage to or loss of a policyholder's home and personal possessions, as well as liability claims for injury or damage to others on the policyholder's property.
- **Commercial property insurance** - covers damage to or loss of commercial buildings, as well as the contents of the building, such as equipment and inventory.
- **Renters insurance** - covers damage to or loss of a policyholder's personal possessions, as well as liability claims for injury or damage to others, in a rented property.
- **Flood insurance** - covers losses resulting from flooding, which is not typically covered by standard homeowners or commercial property insurance policies.

The premium for property insurance is based on several factors, including the type and value of the property being insured, the location of the property, the policyholder's claims history, and the level of coverage desired.

Miscellaneous Insurance

Miscellaneous insurance refers to a variety of insurance products that do not fit into the traditional categories of life, health, motor, property, marine, or liability insurance. This type of insurance covers a wide range of personal and business-related risks and is designed to provide financial protection against unexpected events or losses.

Some common types of miscellaneous insurance include:

- **Travel insurance** - covers financial losses resulting from trip cancellations, medical emergencies, lost or stolen luggage, and other travel-related incidents.
- **Pet insurance** - covers veterinary expenses for a policyholder's pet in the event of illness or injury.
- **Wedding insurance** - covers financial losses resulting from cancellations, postponements, or other unexpected events that may occur during the planning orexecution of a wedding.
- **Technology insurance** - covers financial losses resulting from damage or theft of electronic equipment, such as computers, smartphones, and other devices.
- **Professional liability insurance** - covers financial losses resulting from claims of professional malpractice or negligence in various industries, such as healthcare, law, and consulting.

The premium for miscellaneous insurance is based on several factors, including the type of coverage, the level of coverage desired, and the policyholder's history of losses and claims.

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The concept of Risk & Classification of Risk

The concept of risk in insurance refers to the likelihood of a loss occurring. Insurance is designed to provide financial protection against such losses by transferring the riskfrom the policyholder to the insurer.

Risks can be classified into several categories, including:

- **Pure risk** - risks that result in a loss but no gain, such as theft or damage to property.
- **Speculative risk** - risks that may result in either a loss or a gain, such as investing in the stock market.
- **Moral hazard** - refers to the increased likelihood of a loss occurring due to the policyholder's behavior, such as not taking necessary precautions to prevent theft or damage to property.

In the insurance industry, risks are also classified based on their frequency and severity. For example, some risks are more frequent but less severe (such as small losses from theft or damage to property), while others are less frequent but more severe (such as natural disasters or catastrophic events).

Insurance Documents

Insurance documents are legal contracts that outline the terms and conditions of an insurance policy, including the type and amount of coverage, the premium to be paid, and the responsibilities of both the policyholder and the insurer. These documents include the insurance policy, the application for coverage, and any endorsements or amendments to the policy.

It is important for policyholders to carefully review and understand all insurance documents before purchasing a policy, in order to ensure that the coverage meets their specific needs and provides adequate protection against potential losses.

Need for insurance documentation

Life insurance is a legally enforceable contract between two parties both of whom are legally qualified to contract. It is therefore, necessary that the terms and conditions of the agreement must be suitably documented in a manner that would make it clear that both parties to the contract are Ad-idem i.e., of the same mind. Ad-Idem means that both the parties understand the same thing in the same sense or are of the same mind on the same subject. There must be consensus or Ad-Idem between the parties to the contract.

This is possible provided all the terms and conditions, rights and duties - privileges and obligations are properly documented in terms which can be clearly interpreted in a court of law. Between two human beings sometime silence means an acceptance. But as the insurer is a legal personality entitled to contract verbal discussion between parties to the contract is not possible and hence there is a need for documentation.

The **various kinds of documents which become necessary at three stages of a policy –**

(1) at the stage of proposal, which if accepted result into a policy,

(2) during the duration of the policy where several alterations may become necessary

(3) at the end of the policy contract when insurer pays the final claim.

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Insurance Policy Template

Every new client will need an insurance policy document that spells out what the insurance covers. These documents for insurance policy have five parts and most of the information contained here is the same for all policies. Having an insurance policy form template instead of copying and pasting sections would make it faster and easier.

Whether it is a life insurance template or a home insurance policy template it needs to have the following parts:

1- **Declaration:** This has the details of the insured individual or company, the type of insurance being provided, the limit of coverage as well as the premium. The declaration is the summary of the policy. This part may have some variables that need to be filled.

2- **Agreements:** This part has information regarding what the insurance company is ready to pay for in case the insured risk befalls the client. There may be many agreements listed within the policy. An insurance form template makes the process of producing this section faster.

3- **Definitions:** Some words or phrases are unique to insurance documents and so may have a slightly different meaning from ordinary use. This part of the policy clarifies the meaning of such words. This helps policyholders understand what the insurance policy covers.

4- **Exclusions:** This helps to clarify what may not be covered under the policy. Exclusions also can specify what is covered (and to what extent).

5- **Conditions:** This section determines under what conditions the insurance company will provide cover under the policy. For example, it will pay for the theft of property from a client's home on condition there is evidence of forced entry.

Insurance Letters

Insurance companies communicate with their clients often and letters are a common medium for communication. To save time that would be spent drafting letters, insurance companies can have templates for these letters.

Insurance letters that need templates are usually notifications. These notify clients about progress made in their claims processing, expiry of their policy as well as adjustments made to the policy or claims. These insurance documents or letters need to have a standard flow and must be free of error.

Most parts of notification letters remain the same, so it is possible to have templates for them. The sections of the insurance letter sample can include:

1. **Address:** The address of the insurance company and includes the logo of the company clearly at the top. The information on this part does not change.
2. **Particulars of Recipient:** This is a variable section that can be populated according to the intended recipient's information. It will comprise the name of the correspondent, address, policy number (where applicable)
3. **Date:** The date the letter was authored must be included. Sometimes a letter may be urging the correspondent to take action within a given period from the date the letter was issued.
4. **Body:** This part of the letter contains the important information that the insurance company wishes to convey to the recipient. The greater part of the body of the letter is standard except for variable fields like dates and figures.
5. **Sign off:** This part has the signature of the author of the letter or authorizing officer and where necessary, it will be copied to other stakeholders.

Certificates of Insurance
Every time an insurance policy is approved, the policyholder is issued a certificate of insurance. This insurance document contains a summary of the insurance policy as well as details of the holder of that policy. It is important that no mistakes are made on this document and having a template for the document can eliminate errors.
Although there is no particular format for a certificate of insurance form, there are certain fields that need to be included in the template. These include:

1. **Date:** This shows when the certificate of insurance are issued in. There is also another field that will show the duration of the policy. It will show the start date and the expiry date.

2. **Disclaimer:** This section summarizes the nature of the insurance with limitations included.

3. **Insurer:** The name and particulars of the insurance broker that is issuing the certificate.

4. **Policy Holder:** This field contains the name of the individual or organization that is being insured. It will include other details that help to identify the policyholder including the policy number.

5. **Insurance Cover:** This field spells out what the insurance policy covers. It is the section that most people pay attention to when they ask for the certificate as it gives proof that the certificate holder is insured for a particular liability. It can contain more than a single cover if the insured has multiple covers.

6. **Liability Limit:** This field gives the exact amount of money that would be paid as compensation under the premium paid.

7. **Additional Information:** An extra field can include information like a list of items covered under the policy for example a list of vehicles insured by an organization. It can also inform the holder about the means of communication that will be used to notify them when the policy has been canceled.

8. **Declaration:** Some certificates will include a section where the parties involved declare their commitment to honor the policy details.

9. **Signatures:** This field contains signatures of the insurance company and the insurance broker.

Insurance Claims Documents

Insurance claims documents are detailed reports that need to be organized in a manner that makes them easy to read. Having a template that structures documents required for insurance claim in a particular way will help achieve that aim. The documents required for the settlement and claims of insurance policy will need templates and these include:

1. **Medical Reports:** For medical insurance, the claims template would be structured in a way that all the necessary medical information can be captured to ascertain the amount of money to be paid towards settling the medical bills.

2. **Accident Reports:** For auto insurance, accidents are a common claim. The report template has a structure to be followed when compiling and creating this report.

3. **Inventory:** In the case of loss or damage to property, the claims document will list all the property that has been lost or damaged. The items will also be valued so that compensation can be made.

4. **Third-party Claims:** In case the insured person has caused injury or loss to a third party, an assessment is made and the results of that are entered into the claims document. Different insurance companies can choose how these document templates can be structured.

Insurance Loss Adjustment Documents
When a claim notice is issued, the insurance company uses loss adjusters to determine the liability of the insurance company. The number of loss adjustment documents that may need to be produced by a single insurance company is just as many as the claims and that is why templates are needed for the claim adjustment process. The template will help to quicken the process of loss adjustment so that the client can get a settlement as soon as possible.

What is Claim Settlement?
Claim settlement is the process by which an insurer pays money to the policyholder as compensation for an accident or vehicle injury.
Tools exist that allow you to automate the entire process. Claim Genius too has a wide array of AI-based tech for automating the claims settlement process. But to provide the best claims services, you need to have your eye on several balls at once.

Why is Claims Settlement Important?
Correct and promised claim settlement is essential for any insurance policy to fulfill its purpose, whether it is health, life, motor, property or any other type. Without the financial protection provided through claim settlement, the purpose of purchasing insurance is defeated.
Thus, it is essential that policyholders disclose all relevant facts when signing the insurance proposal, including any pre-existing medical conditions or any other information that is sought to underwrite the insurance proposal. Failure to do so, or providing false or misleading information, can render the resulting insurance contract void as it relies on the assumption that the information provided in the proposal is accurate.
The Insurance Regulatory and Development Authority of India (IRDAI) requires insurance companies to settle claims within 30 days of receiving all the necessary documents from the customers. However, some claims may take longer than usual to process on account of investigations required to ensure that correct settlement is done.
By taking a few simple precautions and understanding what to consider when filling out the proposal and claim forms, it is possible to avoid the added stress of a rejected claim. This can also make the claim settlement process smoother for both the customer and the insurer.

The 4 stages of the claims settlement process

1. **Right after the accident – The Carrier Steps In**
   At the accident site, immediately after the accident has taken place, the victim contacts the insurer directly or through the insurance broker agency.
   Your job as a carrier at this stage is to take down all the facts as an unbiased third party. A carrier takes detailed notes, either in a notebook or through dictations on a smartphone. Photographs of the scene prove to be helpful, as they are obvious visual proof.
   Meticulous records are kept, including the date and time of accident, contact details, licence plate and registration numbers of the other person's vehicle.
   Depending on whether the police are involved, the carrier notes down the contact details of the officer on scene, for later reference. Similar key details are recorded if medical staff is present on the accident site.
2. **The claim is filed**
   The carrier then takes the case to the insurance agency. The accident claim is filed in the victim's name after the details of the victim have been verified. While filing this claim, the person's policy is reviewed against physical injuries and vehicle damage incurred by both parties.
   If there are serious medical complications, the vehicle insurer will coordinate with the medical insurance company who'll look after settling the medical coverage.

An adjuster is assigned
The adjuster is the person who becomes the single point of contact between the accident client and the insurance company.
Adjusters handle the many groups that branch out to study medical reports, investigate the accident scene, talk to witnesses if present, assess the vehicle damage, and start off the process of vehicle repairs and medical recuperations (known in the claims settlement process as 'indemnification').
Parallelly, the claim adjuster checks the client's claim policy coverage which determines how much the person is liable to receive from their insurance.

3. **Whose fault was it?**
The last thing on your client's mind after being in an accident is playing the blame game. They just want to recover from the accident and be reimbursed for any costs they had to bear as a result.
So, it becomes the insurer's responsibility to see the claim settlement process through to its end. And part of it is determining who was at fault. This is crucial because the later stages of paying the claims policy depend on how liable each party is.
Typically, there are two broad criteria for determining fault. If both parties share an equal blame (50-50) *or* nobody was to blame, then the insurance agencies of both parties pay their respective clients. If one party was more at fault (say 60-40), then the policy pay-out is in proportion, with the larger share shouldered by the driver more at fault.
If the accident was caused wholly by just one driver, the claim settlement becomes much simpler, as that driver's insurance agency pays in full.
What if the other party does not have an insurance policy?
Your insurance policy will give you coverage for such scenarios. It will be your insurer who becomes liable to pay the damages in full. However, the terms and conditions of such a policy differs from insurer to insurer. Your insurer may have specific clauses against collision cases, or up to specific amounts.
Beyond that, the insurer will approach the other party to seek damage reimbursement.

4. **Claims payment disputes are settled**
Until now, thorough investigations into each aspect of the accident claim are completed. Now the claims settlement process arrives at its final stage: settling the claims payment.
Armed with data from claim investigation stages, each insurance agency puts forth its demand of payment liabilities. Sometimes, if the figures and facts match, the settlement is made quickly and without hiccups.
If there are disputes about the claim liabilities, the insurers approach Arbitration Forums, a not-for-profit organization that specifically handles insurance disputes. Arbitration Forums appoints a panel which hears arguments from both parties, and ultimately has final say in the matter.

Policy terms and conditions-

Insurance policies come with detailed terms and conditions that define the agreement between the insurer and the insured. These terms and conditions outline what is covered, how claims are handled, and the responsibilities of both parties. Here are key elements typically found in the terms and conditions of an insurance policy:

Key Elements of Insurance Policy Terms and Conditions

1. Declarations:
- **Policyholder Information:** Name, address, and contact details of the insured.
- **Policy Number:** Unique identifier for the insurance contract.
- **Policy Period:** Start and end dates of the coverage.
- **Coverage Details:** Description of the insured items or individuals and the coverage limits.

2. **Insuring Agreement:**
- **Coverage Types:** Defines what risks are covered (e.g., fire, theft, liability).
- **Coverage Limits**: Maximum amount the insurer will pay for a covered loss.
- **Named Perils vs. All-Risk:** Specifies whether the policy covers only named perils or all risks except those explicitly excluded.

3. Exclusions:
- **Specific Exclusions:** Conditions or events that are not covered by the policy (e.g., war, nuclear hazards, intentional damage).
- **General Exclusions:** Broad categories of exclusions applicable across various types of insurance.

4. Conditions:
- **Premium Payments:** Requirements for payment frequency (monthly, annually) and consequences of non-payment.
- **Policy Renewal**: Terms for renewing the policy, including automatic renewal and non-renewal procedures.
- **Cancellation:** Conditions under which the policy can be canceled by either party, including notice periods.
- **Claim Procedures**: Steps to file a claim, required documentation, and deadlines.
- **Duties of the Insured**: Responsibilities such as reporting losses promptly, providing accurate information, and cooperating with the insurer during investigations.

5. **Endorsements and Riders:**
- **Policy Modifications:** Additions or changes to the standard policy terms that customize coverage to meet specific needs.
- **Additional Premiums:** Any extra costs associated with endorsements or riders.

6. **Deductibles:**
- **Amount:** The portion of a claim that the policyholder must pay out of pocket before the insurer pays the remaining balance.
- **Types:** Fixed dollar amount or a percentage of the loss.

7. Policy Limits:
- **Per Occurrence Limit:** Maximum payout for a single claim.
- **Aggregate Limit**: Maximum payout for all claims during the policy period.

8. Subrogation:
- **Rights of Recovery:** The insurer's right to recover funds from a third party responsible for a loss after the insurer has paid a claim.

9. Grace Period:

- **Late Payments:** Time allowed for late premium payments without the policy lapsing.

10. Co-Insurance:

- **Shared Costs:** The policyholder's share of the costs for a covered loss, typically expressed as a percentage.

11. Loss Settlement:

- **Actual Cash Value (ACV):** The value of the insured item at the time of loss, accounting for depreciation.
- **Replacement Cost:** The cost to replace the damaged item with a new one of similar kind and quality without depreciation.

12. Fraud and Misrepresentation:

- **Consequences:** Penalties for providing false information or committing fraud during the application process or claims filing.

Understanding the Terms and Conditions

1. **Read the Policy Thoroughly:** Carefully review all sections to understand the scope of coverage, exclusions, and your obligations.
2. **Ask Questions:** Contact your insurance agent or company for clarification on any unclear terms or conditions.
3. **Review Regularly:** Periodically review your policy, especially before renewal, to ensure it still meets your needs.
4. **Keep Records:** Maintain copies of your policy, endorsements, and any correspondence with your insurer.

By understanding the terms and conditions of your insurance policy, you can ensure that you have the right coverage and know what to expect in the event of a claim.

IRDA-

Insurance Regulatory and Development Authority of India (IRDAI), is a statutory body formed under an Act of Parliament, i.e., Insurance Regulatory and Development Authority Act, 1999 (IRDA Act, 1999) for overall supervision and development of the Insurance sector in India.

The powers and functions of the Authority are laid down in the IRDA Act, 1999 and Insurance Act, 1938. The Insurance Act, 1938 is the principal Act governing the Insurance sector in India. It provides the powers to IRDAI to frame regulations which lay down the regulatory framework for supervision of the entities operating in the Insurance sector. Section 14 of the IRDA Act,1999 specifies the Duties, Powers and Functions of the Authority.

The key objectives of the IRDAI include protecting the interest of policyholders, speedy and orderly growth of insurance industry, speedy settlement of genuine claims, effective grievance redressal mechanism, promoting fairness, transparency and orderly conduct in financial markets dealing with insurance, prudential regulation while ensuring the financial security of the Insurance market.

Mission statement of the authority

- To protect the interest of and secure fair treatment to policyholders.
- To bring about speedy and orderly growth of the insurance industry (including annuity and superannuation payments), for the benefit of the common man, and to provide long term funds for accelerating growth of the economy;
- To set, promote, monitor and enforce high standards of integrity, financial soundness, fair dealing and competence of those it regulates;
- To ensure speedy settlement of genuine claims, to prevent insurance frauds and other malpractices and put in place effective grievance redressal machinery;
- To promote fairness, transparency and orderly conduct in financial markets dealing with insurance and build a reliable management information system to enforce high standards of financial soundness amongst market players;
- To take action where such standards are inadequate or ineffectively enforced;
- To bring about optimum amount of self-regulation in day-to-day working of the industry consistent with the requirements of prudential regulation.

Duties, powers and functions of IRDAI

Section 14 of IRDA Act, 1999 lays down the duties, powers and functions of IRDAI..

Subject to the provisions of this Act and any other law for the time being in force, the Authority shall have the duty to regulate, promote and ensure orderly growth of the insurance business and re-insurance business.

Without prejudice to the generality of the provisions contained in sub-section (1), the powers and functions of the Authority shall include, -

Adjudication of disputes

- Issue to the applicant a certificate of registration, renew, modify, withdraw, suspend or cancel such registration;
- protection of the interests of the policy holders in matters concerning assigning of policy, nomination by policy holders, insurable interest, settlement of insurance claim, surrender value of policy and other terms and conditions of contracts of insurance;
- specifying requisite qualifications, code of conduct and practical training for intermediary or insurance intermediaries and agents
- specifying the code of conduct for surveyors and loss assessors;

Promotion and Regulation:

- Promoting efficiency in the conduct of insurance business;
- Promoting and regulating professional organizations connected with the insurance and re-insurance business;
- Levying fees and other charges for carrying out the purposes of this Act;
- Calling for information from, undertaking inspection of, conducting enquiries and investigations including audit of the insurers, intermediaries, insurance intermediaries and other organizations connected with the insurance business;
- Control and regulation of the rates, advantages, terms and conditions that may be offered by insurers in respect of general insurance business not so controlled and regulated by the Tariff Advisory Committee under section 64U of the Insurance Act, 1938 (4 of 1938);
- Specifying the form and manner in which books of account shall be maintained and statement of accounts shall be rendered by insurers and other insurance intermediaries;
- Regulating investment of funds by insurance companies;
- Regulating maintenance of margin of solvency;

Other duties:

- Adjudication of disputes between insurers and intermediaries or insurance intermediaries;
- Supervising the functioning of the Tariff Advisory Committee;
- Specifying the percentage of premium income of the insurer to finance schemes for promoting and regulating professional organizations referred to in clause (f);
- Specifying the percentage of life insurance business and general insurance business to be undertaken by the insurer in the rural or social sector; and
- Exercising such other powers as may be prescribed

ASSIGNMENT FOR UNIT 3

1. Prepare the documents of a hypothetical life insurance and any one general insurance.