EDU SERUMX COLLEGE OF COMMERCE and MANAGMENT

SYLLABUS

B.Com. I YEAR

Subject – Banking And Insurance

UNIT	Content
UNIT - 1	Introduction to Banking: Historical background of banking. Definition, principles and importance of bank. Classification of bank. Functions of commercial bank. Structure of commercial banking in India. Features of Indian banking system. Credit creation. Central banking: RBI and its functions. Credit control. Nationalization and Merger of banks: General Introduction to Nationalization of Banks, Objective and Introduction to Private Banks Functioning and Usefulness or Importance, effects. Evaluation of nationalization and merger of Indian banks. Meaning and types. Features of back accounts. Procedure to open and close bank accounts (Including online procedure).
UNIT - 2	Bank Deposits: Meaning and types, Features of bank accounts Procedure to open and close bank accounts. Loans and Advances: Principles to sanction loans and advances. Classification of loans and advances. Procedure to apply for house loan, personal loan, education loan and commercial loan.
UNIT - 3	Insurance: Historical background of Insurance. Meaning, elements, basic principles and importance of insurance. Kinds of insurance. Regulation of insurance in India. IRDA: Functions and role to regulate insurance in India.
UNIT - 4	Life Insurance: Historical background, meaning, objectives, importance, essential elements. Life insurance policy and its types. 'Insurance proposal to policy Procedure. Conditions of Life insurance policies.Claim filing procedure and settlement of claims. Life Insurance Corporation of India: Functions, progress and Evaluation.
UNIT - 5	General Insurance: Meaning, objectives & importance. Kinds of general insurance and its features. Basic principles of general insurance. Procedure to apply general insurance policies. Claim filing procedure and settlement of claims. General Insurance Corporation of India: Functions, progress and structure. Performance of private sector companies in general insurance sector. Key Word:- Banking, Insurance, Nationalization, Loans and Advances Progress, Regulation,

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UNIT – 1

Meaning and Definition of a Bank

A **bank** is a financial institution that deals with **money and credit**. It:

1. **Accepts deposits** from people who have extra money.
2. **Lends money** to those who need it.
3. **Transfers money** from one place or person to another.

Definitions by Economists:

1. **Crowther**: A bank collects money from savers and lends it to borrowers.
2. **Kinley**: A bank gives loans to people who need money and keeps money safe for those who don't need it immediately.
3. **John Paget**: A bank must:
    - Accept deposits.
    - Manage current accounts.
    - Issue and pay cheques.
    - Collect cheques for customers.
4. **Prof. Sayers**: A bank is an institution where deposits are widely accepted as a way to settle payments.

Legal Definition (Banking Regulation Act, 1949):

- **Section 5(b)**: Banking means accepting deposits from the public for lending or investment. These deposits can be withdrawn using cheques, drafts, or orders.
- **Section 5(c)**: A "banking company" is any company that does banking business in India. However, companies accepting deposits only to fund their business (like manufacturers or traders) are **not banks**.

Features of a Bank:

1. **Deals with money**: Accepts deposits and gives loans.
2. **Creates credit**: Can lend more money than it holds as reserves.
3. **Commercial institution**: Operates for profit.
4. **Payment system**: Manages payments through demand deposits (e.g., cheques).

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Money Creation by Banks

Banks create money through the loans they give. Here's how it works:

1. People deposit money in a bank.
2. The bank uses a part of this deposit to give loans to borrowers.
3. Instead of giving cash, the bank credits the loan amount to the borrower's account.
4. The borrower can withdraw this money when needed or use cheques to make payments.

This process expands the total money supply because:

- The **original deposit stays in the bank**.
- The **loaned amount is added as a new deposit** in another account.

Economist **Hartley Withers** said, “Every loan creates a deposit.”

Example:

- If someone deposits ₹10,000 in a bank, the bank keeps ₹1,000 as a reserve (10%) and lends ₹9,000.
- This ₹9,000 is deposited by the borrower in another account, and the bank can lend again from this deposit.
- This cycle continues, multiplying the money in the system.

Structure of Commercial Banks in India

The Indian banking system is structured with the **Reserve Bank of India (RBI)** as the central bank, holding the highest position. Below is an easy-to-understand breakdown:

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1. Central Bank or Apex Bank

- **Reserve Bank of India (RBI)**: Established on **1st April 1935** under the RBI Act of 1934, it regulates and oversees the entire banking system.

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2. Commercial Banks

Commercial banks are divided into the following categories:

Category	Details
Public Sector Banks	- Includes **State Banks** (like SBI) and **Nationalized Banks** (21 banks).
	- Handle around **75% of total deposits** in India.
Private Sector Banks	- Includes **Indian Private Banks** and **Foreign Banks** (e.g., HSBC, Citi).
Co-operative Banks	- Includes **Central/ District Co-operative Banks** and **Primary Credit Societies.**
	- Focuses on local and rural banking needs.
Regional Rural Banks (RRBs)	- Provide banking services to rural areas.
Development Banks	- Focus on supporting large-scale infrastructure and industry growth. Examples: **NABARD** (National Bank for Agriculture and Rural Development).

Key Facts about Indian Banking

- **Public Sector Banks**: 26 banks (21 nationalized + 5 SBI and associates).
- **Total Commercial Banks**: 92 (includes private, public, foreign, and regional rural banks).
- Indian banks are divided into:
    1. **Scheduled Commercial Banks (SCBs)**: Registered under RBI regulations.
    2. **Non-Scheduled Banks**: Smaller banks outside the RBI framework.

Principles of Management in Banks: Recruitment

- **What is Recruitment?**
  Recruitment is the process of finding and hiring the right people for jobs in banks.

Steps in Recruitment:

1. **Finding Candidates**: Identify sources of manpower to match job requirements.
2. **Attracting Applicants**: Advertise the job to ensure enough applications are received.
3. **Screening Applications**: Use tools like recruitment software to match candidates to jobs.
4. **Selection Process**: Schedule interviews, send letters, and finalize hiring decisions.

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Recruitment Software:

- Simplifies tasks like ranking candidates, matching profiles to jobs, and sharing information.
- Helps organize interviews and communication at every stage of recruitment.

Definitions:

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

- K. ASWATHAPPA.

Recruitment

Recruitment is the process of finding and attracting qualified candidates for job positions in an organization. Its aim is to build a pool of capable applicants while keeping costs low and ensuring effective selection.

Significance of Recruitment

1. **Understand Current and Future Needs**: Identifies the organization's workforce requirements.
2. **Expand Applicant Pool**: Attracts more candidates at a low cost.
3. **Improves Selection Process**: Reduces unqualified applicants to save time and resources.
4. **Retain Employees**: Ensures new hires stay longer by selecting the right fit.
5. **Diversity and Compliance**: Meets legal and social workforce obligations.
6. **Develop Talent**: Identifies potential employees for future roles.
7. **Boost Effectiveness**: Enhances both short-term and long-term organizational performance.
8. **Evaluate Recruitment Techniques**: Assesses which methods work best.

Objectives of Recruitment

1. **Attract Skilled Individuals**: Find people with diverse skills for current and future needs.
2. **Bring Fresh Perspectives**: Hire outsiders to lead with new ideas.
3. **Infuse Fresh Talent**: Ensure a steady flow of new ideas and skills.
4. **Enhance Organizational Culture**: Build an attractive workplace for competent people.

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5. **Evaluate Traits**: Assess psychological and personality aspects of candidates.
6. **Explore New Talent Pools**: Look for candidates in unconventional areas.
7. **Fair Compensation**: Offer competitive but reasonable salaries.
8. **Anticipate Future Needs**: Recruit for roles that may not yet exist.

Recruitment Policy

The recruitment policy depends on:

- **Government rules and regulations**
- **Competitor practices**
- **Organization's internal policies**
- **Recruitment costs and needs**

Sources of Recruitment

Internal Sources (Existing employees)

- **Current employees**: Permanent or temporary staff.
- **Retrenched or retired staff**: Rehiring experienced employees.
- **Dependents**: Hiring family members of deceased or disabled employees.

Why prefer internal recruitment?

- Boosts employee motivation.
- Saves costs and time.
- Familiarity with internal candidates makes selection easier.
- Ensures stability and satisfies trade unions.

External Sources (New candidates)

1. **Campus Recruitment**: Hiring fresh graduates directly from colleges and universities.
2. **Private Agencies**: Recruitment consultants handle hiring on behalf of companies.
3. **Public Employee Exchanges**: Government offices assist in matching job seekers to companies.
4. **Professional Organizations**: Provide skilled candidates from their member base.
5. **Data Banks**: Maintaining a database of applicants for future needs.
6. **Casual Applicants**: Hiring people who apply on their own.
7. **Similar Organizations**: Recruiting experienced workers from competitors.
8. **Trade Unions**: Using union leaders to identify potential candidates.

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Benefits of external recruitment:

- Brings fresh ideas and skills.
- Helps balance HR diversity.
- Attracts innovative talent.
- Ensures long-term organizational success.

Modern Recruitment Techniques

1. **Walk-in**: Candidates directly attend interviews without prior application.
2. **Consult-in**: Candidates approach companies for job opportunities.
3. **Head Hunting**: Agencies find the best-fit candidates for specific roles.
4. **Body Shopping**: Training institutions recommend candidates.
5. **Business Alliances**: Sharing employees through mergers, acquisitions, or partnerships.
6. **Tele-recruitment**: Posting jobs online and receiving applications through email or websites.

Training (Simplified)

Training is the process of learning new skills, knowledge, or abilities to improve performance, productivity, and efficiency. It focuses on practical or job-specific knowledge.

Importance of Training

1. **Improves Skills**: Enhances management and executive abilities.
2. **Broadens Knowledge**: Helps employees understand the organization's operations.
3. **Better Delegation**: Prepares employees to handle more responsibilities.
4. **Prepares for Future Roles**: Creates a reserve of qualified staff.
5. **Eases Promotions**: Helps identify the best candidates for higher roles.
6. **Reduces Disruptions**: Ensures smooth replacements in positions.
7. **Enhances Morale**: Boosts confidence and motivation.
8. **Attracts Talent**: Appeals to ambitious candidates who want to grow.
9. **Cuts Costs**: Improves efficiency, leading to higher profits.

Training Methods

A) On-the-Job Training

This is hands-on training where employees learn while working under supervision.

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1. **Understudy**: The trainee works as an assistant and learns by observing and imitating.
2. **Coaching**: A superior teaches and corrects the trainee on the job.
3. **Job Rotation**: Employees move across different roles to understand various tasks.
4. **Committee Assignment**: Groups work together to solve a problem and learn teamwork.
5. **Selective Reading**: Employees study relevant books and journals to gain knowledge.

B) Off-the-Job Training

Trainees leave their workplace to focus entirely on training. This can happen within or outside the organization.

1. **Lecture Method**: Classroom-style teaching with demonstrations.
2. **Conferences**: Guided group discussions where participants share ideas and experiences.
3. **Case Study**: Trainees analyze real-life situations to improve observation and decision-making skills.
4. **Role Playing**: Participants act out roles to develop leadership and interpersonal skills.
5. **Management Games**: Teams make decisions in simulated scenarios to enhance strategic thinking.
6. **Sensitivity Training**: Focuses on improving group dynamics, tolerance, and listening skills.

How to Evaluate Training Effectiveness

1. **Meeting Needs**: Check if training has helped employees perform better.
2. **Behaviour Change**: Assess if employees apply their training to improve job performance.
3. **Value Addition**: Look for overall improvements in performance, personality, and teamwork.

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Promotion

Promotion is when an employee moves up in rank or position within a company. Promotions reward good performance, often resulting in a new title, higher salary, and more benefits. Before promoting, companies usually assess the employee's ability to take on new responsibilities through interviews, tests, or training. The opposite of promotion is **demotion**.

Advantages of Promotion

1. **Encourages Internal Hiring**: Uses current employees for open positions.
2. **Motivates Employees**: Inspires staff to work harder.
3. **Increases Job Satisfaction**: Makes employees feel valued.
4. **Boosts Morale**: Builds a positive work environment.
5. **Improves Loyalty**: Promotes dedication to the company.
6. **Supports Self-Development**: Encourages employees to grow.
7. **Lowers Training Costs**: Promoted employees already know the company.
8. **Better Workplace Relations**: Reduces conflicts with current employees.
9. **No Waiting Period**: New roles can be filled quickly.

Disadvantages of Promotion

1. **Lacks Fresh Perspectives**: Limits new ideas from outside hires.
2. **May Cause Bias**: Can lead to favoritism or corruption.
3. **Not Always Ideal Candidates**: Some roles need fresh skills.
4. **Less Innovative**: Internal employees may not bring new approaches.

Basis for Promotion

Promotions are generally based on **seniority** (time spent in the company), **merit** (skills and performance), or a **combination** of both.

1. **Seniority**:
   - **Pros**: Simple to measure, reduces turnover, satisfies senior staff.
   - **Cons**: Can overlook employee performance and potential; may limit learning and ambition.
2. **Merit**:
   - **Pros**: Motivates hard work, rewards talent, maintains efficiency.
   - **Cons**: Hard to measure accurately, doesn't guarantee future performance, may make older employees feel insecure.

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3. **Combination of Seniority and Merit**:
   - Many companies use both seniority and merit to ensure a balanced, fair promotion system.

Merit	Seniority
Advantages	**Advantages**
Motivates employees	Objective
Adds to job satisfaction	Simple
Increases loyalty	Favored by union
	Increases loyalty
	Reduces turnover
Disadvantages	**Disadvantages**
Subjective	Promotes inefficiency
Complicated	Reduces motivation
Scope for favoritism	Kills initiative and innovative thinking
Union opposition	Lowers employee morale
	Promotes industrial unrest

Control of Staff

To establish a good staff control system, the following key principles should be followed:

1. **Reflection of Plans**
   Controls should align clearly with the organization's plans. The more precise the plans, the better the control system works.
2. **Prevention**
   Focus on preventing problems rather than fixing them after they happen. Forward-thinking controls are useful for this.
3. **Responsibility**
   Assign specific individuals the responsibility for identifying deviations and taking corrective actions at every stage.
4. **Exception Principle**
   Managers should focus only on significant deviations. Minor issues can be handled by subordinates.
5. **Critical Points**
   Identify and monitor the most crucial areas that could lead to significant problems. Give these areas more attention.
6. **Pyramid Principle**
   Share feedback first with the lowest levels of staff, allowing them to address issues quickly and effectively.

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Important Staff Provisions

- **Punctuality**: Employees must adhere to work timings.
- **Leave Rules**: Clear policies on leave to maintain discipline.
- **Trade Union Activities**: Manage union activities within organizational rules.

Salient Features of the Indian Banking System

1. **Establishment**:
    - Most commercial banks in India are joint-stock companies under the Companies Act, 1956.
    - Reserve Bank of India (RBI) was established under the RBI Act, 1934.
    - Nationalized banks were restructured under the Banking Companies Act, 1970.
    - Cooperative and foreign banks follow their respective laws.
2. **Ownership**:
    - Commercial banks are owned by the public.
    - State banks and major commercial banks are owned by the government.
    - Cooperative banks are owned by cooperative societies.
3. **Capital Requirements**:
    - Scheduled banks need at least ₹5 lakhs as paid-up capital.
    - Nationalized banks must have authorized capital between ₹1,500 crores and ₹3,000 crores.
    - New private banks also have specific capital requirements.
4. **Capital Adequacy Norms**:
    - Indian banks with foreign branches and foreign banks in India must maintain 8% capital adequacy.
    - Other banks require 4%.
5. **Mixed Banking**:
    - Banks provide both short-term and long-term loans, combining traditional and modern banking.
6. **Increased Private Sector Lending**:
    - Banks prioritize lending to agriculture, small industries, and exports as recommended by the Narsimham Committee.
7. **RBI Control**:
    - The Reserve Bank regulates all banks under the RBI Act, 1934, and the Banking Regulation Act, 1949.
8. **Cash Reserve Ratio (CRR)**:
    - Banks must keep 5% of their deposits as a cash reserve, which can increase to 20%.
9. **Statutory Liquidity Ratio (SLR)**:
    - Banks must maintain 25% of their deposits as SLR, which can go up to 40%.
10. **Currency Issuance**:

- RBI has a monopoly on issuing notes of ₹2 and above, while the central government issues ₹1 notes.

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11. **Uniform Accounting**:

- All banks follow uniform rules for recognizing income, handling bad loans, and valuing assets.

12. **Technological Advancements**:

- Banks are computerized and offer Core Banking Services (CBS) for "anywhere banking."
- Mobile banking and cashless payment systems (like debit cards) are widespread.

13. **Internet Banking**:

- Customers can perform online banking transactions 24x7, including ATM access nationwide.

14. **Branch Banking**:

- India has a branch-heavy banking system to cater to its vast geography and economy.

15. **Diversification**:

- Banks now offer more than deposits and loans, entering new businesses with RBI approval.

Types of Banks in India

1. **Commercial Banks**:
   - Provide short-term loans for trade and commerce.
   - Public sector dominates, but private banks also exist.
2. **Industrial Banks**:
   - Offer long-term loans to industries for machinery, land, and factories. Examples: IDBI, IFCI.
3. **Agricultural Banks**:
   - Provide loans to farmers for seeds, fertilizers, machinery, and land. Examples: Cooperative Banks, Land Development Banks.
4. **Exchange Banks**:
   - Handle foreign trade and currency exchange.
5. **Saving Banks**:
   - Promote saving habits, like India Post Savings Bank.
6. **Central Bank**:
   - Reserve Bank of India oversees monetary policy, note issuance, and economic stability.

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Classification Based on Ownership

1. **Public Sector Banks**:
    - Owned by the government. Examples: State Bank of India and regional rural banks.
2. **Private Sector Banks**:
    - Owned by private individuals or companies.
3. **Cooperative Banks**:
    - Operate under cooperative societies, especially for rural finance.

Classification Based on Domicile

1. **Domestic Banks**:
    - Registered in India.
2. **Foreign Banks**:
    - Operate in India but are headquartered abroad.

Scheduled and Non-Scheduled Banks

1. **Scheduled Banks**:
    - Listed under the RBI Act, 1934.
    - Must have a minimum paid-up capital of ₹5 lakhs and operate in depositor's interest.
2. **Non-Scheduled Banks**:
    - Not listed under the RBI schedule and typically smaller in scale.

RESERVE BANK OF INDIA:

The **Reserve Bank of India (RBI)** is India's central banking institution, established on **April 1, 1935** during British rule, and was nationalized in **1949** after India's independence. It controls the **monetary policy** of the Indian Rupee and plays a crucial role in India's economic development.

Key Functions of RBI:

1. **Note Issue**: The RBI has the sole authority to issue currency notes, except for one-rupee notes which are issued by the Government of India.
2. **Banker to Government**: The RBI manages government deposits, issues loans, and advises the government on financial matters.
3. **Banker's Bank**: The RBI regulates and supervises all commercial banks, ensuring liquidity and solvency. It acts as a lender of last resort in emergencies.

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4. **Custodian of Foreign Exchange Reserves**: The RBI manages India's foreign exchange reserves, stabilizing the currency and regulating exchange rates.
5. **Controller of Credit**: The RBI controls the money supply in the economy to maintain price stability and promote growth. It uses various methods like **repo rates**, **open market operations**, and **cash reserve ratios** to control credit.
6. **Ordinary Banking Functions**: The RBI also provides typical banking services such as accepting deposits, buying and selling government securities, and offering loans.
7. **Promotional and Developmental Functions**: The RBI promotes financial inclusion by encouraging banks to open branches in rural areas, and supports agricultural and industrial development.
8. **Forbidden Business**: As a central bank, the RBI is prohibited from engaging in commercial activities like participating in trade, buying shares, or providing unsecured loans.

Credit Control Methods:

- **Qualitative Methods**: These include measures like **moral suasion** (persuading banks), **rationing of credit**, and **direct actions** against banks that don't follow the rules.
- **Quantitative Methods**: These include tools like:
  - **Bank Rate**: The interest rate at which the RBI lends to commercial banks. It is raised during inflation to restrict credit.
  - **Open Market Operations**: The buying and selling of government securities to manage the money supply.
  - **Repo and Reverse Repo Rates**: These rates are used to control liquidity in the banking system.
  - **Cash Reserve Ratio (CRR)**: The percentage of a bank’s deposits that must be kept in reserve with the RBI.
  - **Statutory Liquidity Ratio (SLR)**: The percentage of a bank's deposits to be invested in approved securities, helping to control inflation or stimulate growth.

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UNIT – 2

Bank Deposits

Deposits Mobilization:

In India, commercial banks help people save money and increase their deposits. For example:

- In 1947, bank deposits were Rs. 1,080 crore.
- By 1998, this increased to Rs. 6,05,410 crore.
- By March 2002, total deposits were Rs. 11,31,188 crore.

This increase is due to government policies, the expansion of bank branches, and industrial growth.

Types of Bank Accounts:

1. **Demand Deposits:**
    - These are deposits that can be withdrawn at any time.
    - **Examples:**
        - **Savings Accounts:** Regular accounts where individuals can save money, usually earning interest, but with limits on how many times they can withdraw each month.
        - **Current Accounts:** Used by businesses for regular transactions, offering unlimited withdrawals but no interest.
2. **Term Deposits:**
    - These accounts require you to leave money in the bank for a fixed period (from 7 days to 10 years). You earn higher interest, but there are penalties for withdrawing early.
    - **Recurring Deposits:** You deposit a fixed amount regularly, and the interest rate is locked for the entire term.
3. **Hybrid/Flexi Deposits:**
    - These are special accounts that combine features of savings and term deposits. For instance, extra funds from your savings account can automatically be moved into a term deposit to earn more interest, and can be easily moved back when needed.
4. **Joint Accounts:**
    - Multiple people can open an account together. Common types of joint accounts include:
        - **Jointly:** All account holders must sign for withdrawals.
        - **Either or Survivor:** Any account holder can operate the account. After one person's death, the other can continue.
        - **Former or Survivor:** The first account holder operates the account, and the second can take over after their death.

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5. **Nomination:**
    - You can nominate someone to receive the balance of your account in case of your death. This makes it easier for the nominee to claim the money without legal procedures. However, the money is held in trust for the legal heirs.
6. **Closure of Accounts:**
    - Accounts can be closed by the account holder, or they may be closed automatically in the event of death, insolvency, or court orders. If a bank goes bankrupt, depositors are covered up to Rs. 1 lakh.

Loans and Advances:

A **loan** is money borrowed from a bank or financial institution that needs to be paid back with interest. The main details of a loan include:

- **Principal:** The amount of money borrowed.
- **Interest:** The cost of borrowing, which the borrower has to pay in addition to the principal.
- Loans are repaid in installments over time, and there are legal contracts ensuring both parties follow the terms.

Types of Loans:

1. **Secured Loan**: A loan where the borrower offers assets (like property or a car) as collateral. If the borrower fails to repay, the lender can sell the asset to recover the money.
    - Example: A **mortgage loan** for buying a house, where the house itself is collateral.
2. **Unsecured Loan**: A loan without any asset as collateral. These include:
    - Credit card debts
    - Personal loans
    - Overdrafts
    - Corporate bonds

    The interest rates for unsecured loans are typically higher because the lender has no asset to claim if the borrower defaults.

3. **Demand Loan**: A short-term loan without a fixed repayment date, which can be called in for repayment at any time by the lender.
4. **Subsidized Loan**: A loan where the interest is reduced through subsidies, often used in student loans.
5. **Concessional Loan**: A "soft loan" with terms more favorable than market rates, such as lower interest rates or longer repayment periods.

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Investment Management:

Investment management involves managing assets like stocks, bonds, and real estate to meet specific goals. It includes:

- Asset allocation (deciding how to divide funds among different types of investments)
- Diversification (spreading investments across different assets to reduce risk)
- Long-term returns (investing in assets that provide higher returns over time, like stocks)
- Investment styles (strategies like growth or value investing, depending on market conditions)

Cheques:

A cheque is a written order from the account holder (the drawer) to their bank (the drawee) to pay a specified amount of money to a designated payee.

- It must include the monetary amount, date, and the payee's name.
- A cheque is always payable on demand, meaning it can be cashed or deposited as soon as it's presented.
- Key characteristics of a cheque:
    1. It's drawn on a specific bank.
    2. It's payable immediately upon demand.

Crossing of Cheques:

A **cheque** can be either **open** or **crossed**.

1. **Open Cheques**: These can be cashed directly at the bank counter. They are at higher risk because if they are lost or stolen, anyone who finds it can cash it, unless the drawer cancels the cheque.
2. **Crossed Cheques**: To protect the cheque from being cashed by anyone, crossing is done. It is a mark on the cheque that tells the bank to pay the money only through another bank account. This reduces the risk of the cheque being stolen or misused. Crossing does not stop the cheque from being transferred, but it makes it safer.

Modes of Crossing:

To cross a cheque, two parallel lines are drawn on the left-hand corner. Words like "& Co" may be added between the lines, though this is optional.

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Types of Crossing:

1. **General Crossing**: This involves two parallel lines. It means the cheque can only be deposited through a bank (not cashed directly at the counter).
2. **Special Crossing**: The name of a specific bank is written between the lines. This means the cheque can only be paid through that particular bank.
3. **Restrictive Crossing**: The words "Account Payee" or "Account Payee Only" are added. This restricts the payment to only the person named on the cheque, and only that person's bank can collect the payment.
4. **Not Negotiable Crossing**: When the words "not negotiable" are written, the cheque can still be transferred but the person receiving it cannot claim any better rights than the person who transferred it. This protects against theft or loss.

Who Can Cross a Cheque?

- **Drawer**: The person who writes the cheque can cross it.
- **Holder**: A person holding the cheque can also cross it.
- **Banker**: A bank can specially cross a cheque to collect payment for someone else.

Difference Between a Bill of Exchange and a Cheque:

1. **Bill of Exchange**: Can be drawn on any person, not just a bank. Needs to be accepted before payment.
    - **Cheque**: Always drawn on a bank and does not need acceptance.
2. **Bill of Exchange**: Requires a stamp under the Indian Stamp Act.
    - **Cheque**: No stamp required.
3. **Bill of Exchange**: Can be payable after a certain period.
    - **Cheque**: Always payable immediately.
4. **Bill of Exchange**: Has a grace period (3 days) for payment.
    - **Cheque**: Payable immediately within the bank's working hours.
5. **Bill of Exchange**: Can't be made payable to bearer on demand.
    - **Cheque**: Can be made payable to bearer on demand.
6. **Bill of Exchange**: If not presented for payment, the drawer is not liable.
    - **Cheque**: The drawer is only discharged from liability if the cheque is not presented in a reasonable time, causing them loss.

Bank Draft (Demand Draft)

A **bank draft** or **demand draft** is a type of payment method used when one bank draws a payment order on itself or another bank. Here are the key features:

1. **Issued by a Bank**: A bank draft is always drawn by a bank on its own branch or another bank.
2. **Payable on Demand**: The payment is always made when requested, and it can't be made payable to "bearer."
3. **No Stopping Payment**: Once issued, payment of a bank draft can't typically be stopped or canceled, making it a secure way to send money.

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Bills of Exchange and Endorsements

A **bill of exchange** is a written order for one party to pay a fixed sum of money to another party at a future date. They are used in international trade and can be transferred through endorsements. **Bank drafts** are a type of bill of exchange issued by banks.

Endorsement refers to the signing of a bill or cheque by the holder to transfer it to someone else. The different types of endorsements are:

1. **Blank Endorsement**: The endorser signs their name only, making it payable to the bearer.
2. **Special or Full Endorsement**: The endorser writes the name of the person to whom the payment is made.
3. **Conditional Endorsement**: The endorsement is subject to certain conditions, such as “Pay after my marriage.”
4. **Restrictive Endorsement**: This limits the further transfer of the bill, e.g., “Pay only to A. Pereira.”
5. **Partial Endorsement**: Part of the bill amount is transferred to multiple endorsees.

Government Securities

Government securities are bonds issued by the government, which promise to repay the debt at maturity. These are low-risk investments since they are backed by the government’s power to tax.

Risks Involved:

1. **Credit Risk**: The risk that the government might fail to repay.
2. **Currency Risk**: The risk that currency value may change, affecting the bond's value.
3. **Inflation Risk**: The risk that inflation could reduce the value of the bond payments.

E-Banking Procedure

E-Banking allows customers to do banking tasks online through a secure website.

Key Features of E-Banking:

1. **Non-Transactional Tasks**: Viewing balances, downloading statements, ordering cheque books, etc.
2. **Transactional Tasks**: Transferring funds, paying bills, investing, etc.
3. **Special Features**: Some banks offer financial management tools, allowing you to track all your accounts, even those from different institutions.

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Procedure for E-Banking:

1. **Open an Account**: Request for a new account and opt for online banking.
2. **Get Login Details**: Receive your user ID and password.
3. **Activate Services**: Activate online services by following the bank's instructions.
4. **Login**: Access your account online with the provided credentials.
5. **Request for Transaction Password**: Submit your details to receive the transaction password.
6. **Activate Transaction Password**: Once received, use it to perform transactions securely.

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UNIT – 3

Meaning of Insurance:

Insurance is a legal agreement between an insurance company (the insurer) and an individual (the insured). The insurer promises to cover the financial loss of the insured due to unexpected events, in exchange for regular payments (called premiums) from the insured. Essentially, insurance is a way of transferring the financial risk of certain events to the insurance company.

Key Elements of an Insurance Contract:

1. **Offer and Acceptance**: When an individual applies for insurance, it's an offer to pay premiums in exchange for coverage. Acceptance happens when the insurance company issues the policy.
2. **Legal Consideration**: The insured agrees to pay premiums, and the insurer agrees to provide coverage up to a specified limit.
3. **Competent Parties**: Both the insured and insurer must be legally capable of entering into the contract.
4. **Free Consent**: Both parties must voluntarily agree to the contract, without fraud or coercion.
5. **Legal Purpose**: The contract must comply with the law and only cover legal activities.
6. **Insurable Interest**: The insured must have a financial interest in the item or person being insured, and suffer a loss if it's damaged or destroyed.
7. **Utmost Good Faith**: Both parties must be honest and disclose all important facts.
8. **Material Facts**: Facts that impact the risk, like age, health, occupation, or driving history.
9. **Full and True Disclosure**: Both parties must fully disclose all material facts.
10. **Duty of Both Parties**: Both the insured and insurer must be truthful and follow all legal rules.

Types of Insurance:

1. **Life Insurance**: Provides financial support to dependents in case of death.
2. **Health Insurance**: Protects against medical costs.
3. **Motor Insurance**: Covers damages to vehicles and third-party liabilities.
4. **Accident and Disability Insurance**: Provides financial protection in case of accidents or disabilities.
5. **Home Insurance**: Covers damages to your property due to theft, natural disasters, etc.

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Some less common types of insurance:

1. **Critical Illness Insurance**: Covers serious health conditions like cancer.
2. **Travel Insurance**: Protects against risks while traveling, such as medical emergencies or trip cancellations.

Importance of Insurance:

1. **Provides Peace of Mind**: Knowing you're financially protected reduces stress.
2. **Promotes Risk Control**: Insurance helps control risks by spreading the financial burden.
3. **Promotes Economic Growth**: Insurance funds contribute to infrastructure projects and investments.
4. **Distribution of Risk**: Risk is shared among many people, not concentrated in one person.
5. **Helps in Getting Loans**: Insurance can make it easier to get loans, especially home loans.
6. **Encourages Saving**: Insurance plans like endowment policies or pension plans promote saving.
7. **Tax Benefits**: Premiums paid for life or health insurance can lead to tax deductions.

Principles of Insurance:

1. **Utmost Good Faith**: Both parties must provide truthful and clear information.
2. **Proximate Cause**: If there are multiple causes for a loss, the insurance company will consider the primary cause to decide if the claim is covered.
3. **Insurable Interest**: The insured must have a financial interest in the property or person being insured.
4. **Indemnity**: The insured should be compensated for the actual loss, not more than that.
5. **Subrogation**: After paying the claim, the insurer can pursue the party responsible for the loss.
6. **Contribution**: If the insured has multiple policies, they can only claim up to the actual loss.
7. **Loss Minimization**: The insured must take steps to minimize the loss (e.g., preventing further damage after an accident or fire).

Historical Background of Insurance in India:

The history of insurance in India dates back to 1818 when the Oriental Life Insurance Company was founded by Anita Bhavsar in Kolkata, primarily to serve the European community. During the pre-independence period, there was discrimination between Indian and foreign policyholders, with higher premiums charged to Indians. In 1870, the Bombay Mutual Life Assurance Society became the first Indian-owned life insurance company.

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By the early 20th century, many insurance companies were established. In 1912, the Life Insurance Companies Act and the Provident Fund Act were introduced to regulate the industry, making it mandatory for companies to have certified actuaries for premium rates and valuations. The National Insurance Company, founded in 1906, is still in operation today as the oldest surviving insurance company.

In 1956, the Indian government nationalized the life insurance sector, creating the Life Insurance Corporation (LIC) by merging 154 Indian and 16 non-Indian companies. The general insurance sector was nationalized in 1972 with the passing of the General Insurance Business (Nationalisation) Act, which led to the formation of four major companies: National Insurance Company, New India Assurance, Oriental Insurance, and United India Insurance.

In the late 1990s, the insurance sector was opened to private companies, leading to the establishment of 23 private life insurance companies. The subsidiaries of General Insurance Corporation of India were de-linked and set up as independent companies in 2000.

Insurance Regulatory and Development Authority (IRDA):

The Insurance Regulatory and Development Authority of India (IRDA) is the main body that oversees and regulates the insurance sector in India. Its primary goal is to protect policyholders' interests and ensure the growth of insurance in the country. IRDA regulates both life and general insurance companies.

Functions of IRDA:

1. Protects policyholders by ensuring claims are processed fairly.
2. Monitors insurers to prevent misconduct and conducts audits and investigations.
3. Regulates insurance rates and terms to ensure fairness.
4. Steps in to resolve disputes between insurers and policyholders.
5. Sets guidelines for insurers to maintain balance in both urban and rural areas.

Role of IRDA in the Insurance Sector:

IRDA was established to prevent insurance companies from denying coverage or charging unfair premiums based on risk assessments. Similar to how the Reserve Bank of India (RBI) regulates the banking sector, IRDA ensures the fair functioning of the insurance market, encouraging growth and protecting policyholders' rights.

IRDA helps:

- Promote the growth of the insurance industry for public benefit.
- Ensure policyholders' trust by protecting their interests.
- Uphold integrity and fairness in the market.
- Resolve disputes quickly and efficiently.
- Prevent fraud and ensure high standards are maintained in the industry.

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With India's growing economy, new insurance companies are entering the market, and IRDA plays a crucial role in maintaining the quality and integrity of the industry. This contributes to strengthening the financial capacity of the country.

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Unit –IV

LIFE INSURANCE

2.1 Introduction: Life Insurance

Life insurance is a popular and essential form of insurance that provides financial protection against life uncertainties such as premature death, accidents, disability, and old age. It aims to offer support to the insured person's family by providing funds in times of need. Life insurance has two main purposes: protection against risks and investment. It is a long-term contract that ensures financial security either through protection or as an investment option. The contract typically pays a sum of money upon the death of the insured or at a specified time, like when the policy matures.

In essence, life insurance helps to safeguard families from economic hardship caused by an untimely death or old age. It works as a solution to these problems by providing financial assistance when most needed.

2.2.1 Meaning and Nature of Life Insurance

Life insurance revolves around two fundamental concepts:

1. **Death Cover:** If the insured person dies during the policy period, their family receives a specified amount.
2. **Survival Benefits:** If the insured survives the policy period, they receive a payout from the insurance company.

While life insurance cannot prevent death, it minimizes the financial strain on the family by assuming the financial risk of the insured.

Definitions:

- **Insurance Act 1938:** Life insurance refers to business contracts that provide a sum of money upon death or the occurrence of an event tied to human life.
- **J.H. Magee:** Life insurance is an agreement where the insurer promises to pay a specified sum of money upon the death of the insured or at a designated time to a chosen beneficiary.
- **R.S. Sharma:** Life insurance involves the insurer agreeing to pay an annuity or a sum of money upon the death of the insured or after a certain period, in exchange for premium payments.

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Nature of Life Insurance

1. **Contractual Nature:** Life insurance is a contract between the insurer and the insured, where the insurer promises to pay a sum of money in return for premiums.
2. **Cooperative Device:** Life insurance operates on the principle of mutual help, where a group of people with similar risks contribute premiums to form a common fund, which is used to compensate those who suffer a loss.
3. **Large Number of Participants:** Life insurance spreads the financial burden over many people, making the risk manageable for each individual.
4. **Risk Sharing:** It is a social and economic tool where the financial burden caused by unexpected events is shared by the insured group through premiums.
5. **Uncertainty:** The insured event, such as death, is uncertain in terms of timing, but life insurance is based on this uncertainty.
6. **Payment of Claims:** The insurer is liable to pay the claim upon the death of the insured or the policy's maturity. If the insured person dies before the maturity date, the nominee receives the sum assured.
7. **Insurable Interest:** The insured person must have a financial or emotional interest in the life they are insuring, such as family members or business partners.
8. **Not an Indemnity Contract:** Life insurance does not compensate for the actual loss of life in monetary terms. Unlike indemnity contracts, the value of life cannot be quantified in money.
9. **Protection to Family:** Life insurance is designed to protect the insured's family from financial hardships if the insured dies before the policy matures.
10. **Business, Not Charity:** Life insurance is a business. The premiums paid by the insured are a consideration for the risk the insurer assumes.
11. **Investment of Savings:** Life insurance combines both protection and investment, allowing the insured to invest for future needs while also securing their family against unforeseen risks.

Features and Characteristics of Life Insurance

1. **Legal Contract**: Life insurance is a contract between the insurer and the insured, governed by the provisions of the Indian Contract Act.
2. **Protection and Security**: It promises to pay a certain amount in the event of the insured person's death, disability, or other related events.
3. **Assured Payment**: Unlike other types of insurance, life insurance provides a fixed, assured payment, making it a non-indemnity contract.
4. **Dual Purpose**: It serves two main objectives: protection (financial security) and investment (building savings).
5. **Educational and Marriage Provisions**: It helps in planning for the future needs of children, such as their education or marriage.
6. **Meeting Special Needs**: Life insurance can help cover medical expenses or loss of income due to illness or disability.
7. **Loan Repayment**: It ensures that loans (e.g., home loans) can be repaid after the policyholder's death, reducing the financial burden on the family.

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8. **Good Faith and Insurable Interest**: It adheres to the principles of utmost good faith and insurable interest, ensuring transparency and validity.
9. **Transferable**: A life insurance policy is a personal property, which can be sold, mortgaged, or gifted.
10. **Nomination Facility**: The policyholder can nominate a beneficiary to receive the insurance amount upon death.

Importance of Life Insurance

1. **Family Protection**: Provides financial security for the family in case the breadwinner dies unexpectedly.
2. **Old Age Relief**: Offers a financial cushion for old age, especially in nuclear families where children may not be able to support.
3. **Compulsory Savings**: Encourages regular savings by paying premiums, ensuring long-term financial stability.
4. **Provision for Children's Needs**: Life insurance helps in fulfilling children's educational and marriage expenses.
5. **Emergency Needs**: In case of physical disability or illness, life insurance can help cover medical expenses and lost income.
6. **Tax Relief**: Premiums paid on life insurance are tax-deductible, providing savings on income tax.
7. **Protection Against Creditors**: Life insurance proceeds can be shielded from creditors, offering security to the insured's family.
8. **Debt Repayment**: Life insurance can be used to repay loans, ensuring the family doesn't face a financial burden.

Types of Life Insurance Policies

1. **Term Insurance**: Offers pure life cover for a specific period (10, 20, or 30 years). It does not provide maturity benefits, making it an affordable option.
2. **Term Insurance with Return of Premium**: A variant of term insurance where premiums are returned if the policyholder survives the term.
3. **Unit Linked Insurance Plans (ULIPs)**: Combines insurance with investment, allowing you to invest in market-linked funds.
4. **Endowment Policies**: Combines life insurance with savings, providing a lump sum amount at maturity or in case of death.
5. **Moneyback Policies**: Pays a portion of the sum assured at regular intervals during the policy term, offering liquidity.
6. **Whole Life Insurance**: Provides lifelong coverage, with the option to receive a death benefit or a maturity benefit if the policyholder lives beyond 100 years.
7. **Group Life Insurance**: Covers a group of people, often provided by employers as a benefit.
8. **Child Insurance Plans**: Helps in saving for a child's future needs, such as education or marriage, from an early age.
9. **Retirement Plans**: Provides a pension after retirement, ensuring financial stability in old age.

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Introduction to General Insurance in India:

In India, the insurance industry is divided into two main types: life insurance and general insurance. While life insurance provides financial protection in case of death, general insurance covers the financial losses related to assets or specific situations. General insurance helps protect the value of assets and provides financial security in case of loss or damage.

What is General Insurance?

General insurance covers the loss of assets or financial loss due to specific risks. These plans provide compensation when you face unexpected situations, helping you recover financially.

Advantages of General Insurance:

1. **Financial Security**: General insurance plans compensate for your financial losses, giving you a safety net during emergencies.
2. **Legal Requirements**: Some general insurance plans, like motor insurance, are mandatory by law. For example, the Motor Vehicles Act, 1988, requires all vehicles to have insurance.
3. **Protecting Savings**: General insurance helps safeguard your savings, allowing you to use them for future financial goals rather than emergency expenses.
4. **Tax Benefits**: Health insurance plans, which are part of general insurance, offer tax deductions under Section 80D, lowering your taxable income.

Types of General Insurance Plans:

1. **Health Insurance**: Covers medical expenses if you or your family members need treatment. It helps with hospital costs, surgeries, and medicines. There are different types of health insurance:
   - **Individual Plans**: For a single person.
   - **Family Floater Plans**: For the entire family.
   - **Senior Citizen Plans**: For elderly individuals.
   - **Critical Illness Plans**: For specific serious illnesses.
   - **Top-up Plans**: For additional coverage on existing plans.
2. **Motor Insurance**: Covers vehicles like cars, bikes, and commercial vehicles. Motor insurance is mandatory for all vehicles on Indian roads. It has two types:
   - **Third-party Liability**: Covers damage to others or their property.
   - **Comprehensive Plans**: Covers both third-party damage and your own vehicle.
3. **Travel Insurance**: Protects you during travel, covering emergencies like medical issues, loss of baggage, trip cancellations, etc. There are several types:
   - **International and Domestic Plans**: Depending on where you're traveling.
   - **Student and Senior Citizen Plans**: Tailored for specific groups.
4. **Home Insurance**: Covers your home and its contents against damage or loss caused by natural disasters (like earthquakes or floods) or man-made events (like theft or fire). There are three main types:

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- **Structure Insurance**: For the building itself.
- **Contents Insurance**: For personal belongings inside.
- **Comprehensive Policy**: Covers both structure and contents.

5. **Fire Insurance**: Covers damage caused by fire and related risks like lightning, floods, or storms. It includes:
    - **Repair or Replacement Costs**: For any damaged property.
    - **Third-party Property Damage**: If fire damages someone else's property.

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