4th SEMESTER BCOM /BBA

CALICUT UNIVERSITY

BANKING AND INSURANCE

Prepared by

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SYLLABUS

Lecture Hours per week: 5, Credits: 4

Internal: 20,

External: 80, Examination 2.5 Hours

Objectives:

- To enable the students to acquire knowledge about basics of Banking and Insurance
- To familiarize the students with the modern trends in banking.

Module I

Introduction to Banking : Meaning and definition - Origin and development of banking

Customer of a bank - Structure of banking in India - Banks and economic development - Functions of commercial banks (conventional and innovative functions) - Central bank -RBI – Functions - Emerging trends in banking. Activity: List out the name of banks as per their different category Assignment: Procedure for creating an account in a bank

(15 Hours, 15 marks)

Module II

Negotiable Instruments : Definition - Characteristics - Types - Parties to negotiable instruments -Cheques - Types of cheques - Crossing of cheques - Drafts - Cheque vs. Draft - Endorsement – Significance - Regularity of endorsement - Liability of endorser - Electronic payments. Activity / Assignment: • Writing of cheque , writing of challan for Demand Draft • Procedures for a Bank Loan.

(15 Hours, 15 marks)

Module III

E-Banking-centralized online real time electronic banking (CORE)-Electronic Clearing service (ECS) - Electronic Fund Transfer - Real Time Gross settlement (RTGS)—National Electronic Fund transfer(NEFT)-society for worldwide interbank financial telecommunication(SWIFT) – E-cheque - Any Time Money - ATM.s- Credit card - Debit card-smart card - Internet banking – Mobile banking - Tele-banking - financial inclusion - recent initiatives in financial inclusion. Activity / Assignment: • Chelan filling for RTGS, EFT and NEFT • Different types of Cards, the Procedure for application of different cards and the Procedure for blocking cards • Procedure for Application or activation of net banking, m-banking and tele-banking.

(20 Hours, 20 marks)

Module IV

Introduction to insurance: Concept - need of insurance-insurance as a social security tool - Insurance and economic development-principles of insurance - various kinds of insurance - life And general insurance (fire, marine, medical, personal accident, property and motor vehicle insurance) - features-life insurance Vs. General insurance. Activity / Assignment: List out different names of insurance companies

(15 Hours, 15 marks)

Module V

Life insurance:-Law relating to life insurance-general principles of life insurance contract, Proposal and policy—Assignment and nomination - title and claims - general insurance - law Relating to general Insurance - IRDA - powers and functions - insurance business in India Case Study: Preparation of a proposal for life insurance and how to claim insurance in case of any Accident, death or damage.

(15 Hours, 15 marks)

Reference Books:

1. Sheldon H.P : Practice and Law of Banking.
2. Bedi. H.L : Theory and Practice of Banking.
3. Maheshwari. S.N.: Banking Law and Practice.

MODULE 1

ORIGIN AND DEVELOPMENT OF BANKING

Definition of a Bank

Banking Regulation Act of 1949 defines banking as "accepting for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise, and withdrawals by cheque, draft, order or otherwise.

➢ **Characteristics / Features of a Bank**

- Dealing in Money
- Individual / Firm / Company
- Acceptance of Deposit
- Giving Advances
- Payment and Withdrawal
- Agency and Utility Services
- Profit and Service Orientation
- Banking Business

➢ **Importance of banks**

1. Banks mobilize small, scattered and idle savings of the people, and make them available for Productive purpose.
2. By offering attractive interests, Banks promote the habit of thrift and savings
3. By accepting savings, Banks provide safety and security to the surplus money
4. Banks provide convenient and economical means of payments
5. Banks provide convenient and economical means of transfer of funds
6. Banks facilitate the movement of funds from unused regions to useful regions
7. Banking helps trade, commerce, industry and agriculture by meeting their financial Requirements
8. Banking connects saving people and investing people.

➢ **Features of a Bank**

- Dealing in money
- Accepting deposits
- Giving advance

- Payment and Withdrawal
- Agency and Utility Services
- Banking business etc….

Evolution of Banking in India

The banking sector development can be divided into three phases:

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

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

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

- The first bank of India was the ―*Bank of Hindustan*‖, established in 1770
- Bank of Bengal (1809)
- Bank of Bombay (1840)
- Bank of Madras (1843)
- RBI commenced its operations on 1 April 1935 in accordance with the Reserve Bank of India Act, 1934. The Reserve Bank of India was nationalized in 1949.
- Banking Regulation Act passed on 1949
- 14 banks were nationalized between the time duration of 1969
- In the year 1980, another 6 banks were nationalized
- RBI gave license to Private sector banks to establish themselves in the country.

Types of the banks

- Commercial banks (eg. SBI, ICICI etc...)
- Industrial banks (e.g. IDBI)
- Agricultural banks (e.g. NABARD)
- Local Area Banks (small private banks)
- Small Finance Banks (ESAF Small Finance Bank)
- Payment banks (e.g. Aditya Birla Nuvo Limited)
- Exchange banks (e.g. All scheduled banks)
- Central banks (RBI, Bank of England, Reserve Bank of Australia etc.)
- World bank (IMF, IBRD)
- BRICS Bank

Customer of a Bank

Meaning

A person who has an account in a bank is considered as a customer

Definition

According to Dr.H.L.Hart, –"a customer is one who has an account with a banker or for whom a banker habitually undertakes to act as such"

Types of Deposit Accounts

1. Savings Bank Accounts
2. Recurring deposits
3. Current Accounts
4. Fixed Deposit

➢ **Steps for opening a saving or current account**

1. Application on the prescribed form
2. Introduction of the applicant
3. Obtaining specimen signature
4. Receiving initial deposit
5. Opening the account

Operating the bank account

- Pay-in-Slip book:- Pay-in slips encourage the sorting of cash and coins, are filled in and signed by the person who deposited the money, and some tear off from a record that is also filled in by the depositor

- Cheque Book:- A cheque, is a document that orders a bank to pay a specific amount of money from a person's account to the person in whose name the cheque has been issued.
- Pass Book: - A passbook or bankbook is a paper book used to record bank or building society transactions on a deposit account.

How can you open an account offline?

The steps you need to follow to open a savings account offline at your bank's nearest branch is given below:

1. Visit your nearest bank branch
2. Fill up account opening form
3. Submit KYC documents (ID and Address proof)
4. Fix your passport size photos on the form
5. Submit a signed cheque if required

- Submit the signed form to the branch and your bank account will be active within a few days.

➢ **What are the documents required to open an Account?**

The documents required to open a bank account are very simple and listed below:

- Proof of identity – Passport, Driving license, Voter's ID card, etc.
- Proof of address – Passport, Driving license, Voter's ID card, etc.
- PAN card
- Form 16 (only if PAN card is not available)
- 2 latest passport size photograph

➢ **Special types of customers**

1. Minor
2. Married women
3. Agents
4. Joint Accounts
5. Partnership firms
6. Join Stock Companies
7. Trustee s
8. Clubs , Association and charitable societies
9. Lunatic
10. Drunkards

11. Pardanashin Women
12. Executors and administrators
13. Local Authorities

1.Minor

A person who has not completed 18 years of age is a minor. Banks allow minors to operate bank accounts only along with a parent or a guardian. All children and teenagers below the age of 18 are considered minors under current rules.

- The conditions for opening and maintaining accounts in the names of the minors are:

1. The minor should have attained the age of discretion, i.e., he must be about 14years of age. He must be capable of understanding what he does.
2. The minor should be able to read and write.
3. The minor should be properly introduced. The account opening form should be signed by the minor in the presence of a bank officer who should be able to identify the minor. The date of birth of the minor should be recorded in the account opening form.
4. Banks usually stipulate limits up to which deposits in such accounts can be accepted
5. Amount tendered by the minor should as far as possible be in cash.
6. In case of time deposits, the amount should be paid in cash on maturity. Prepayment cannot be allowed. Periodical payment of interest on deposits may be made to the minor.
7. If the age of minor is less than 10 years then the account should b jointly opened with some guardian but if the age of minor is in between 10 and 18 years then it can be operated by the minor
8. When the minor becomes major (18 years) then the account should be converted into regular saving account.
9. The bank should know and inform the minor about the daily and monthly spending limits, which is different in different bank.
10. The banker must inform all the rules applicable to the account to the guardian of the minor.
11. All the RBI guidelines must be followed by the banker.

14. Illiterate

2. Married women

An account may be opened by the bank in the name of a married woman as she has the power to draw cheques and give valid discharge.

- At the time of opening an account in the name of a married woman, it is advisable to obtain the name and occupation of her husband and name of her employer, if any, and record the same to enable detection if the account is misused by the husband for crediting there in cheques drawn in favour of her employer.
- In case of an unmarried lady, the occupation of her father and name and address of her employer, if any, may be obtained and noted in the account opening form.
- If a lady customer requests the bankers to change the name of her account opened in her maiden name to her married name, the banker may do so after obtaining a written request from her. A fresh specimen signature has also to be obtained for records

3. Agents

A banker may open an account in the name of a person who is acting as an agent of Another person. The account should be considered as the personal account of an agent, and the banker has no authority to question his power to deal with the funds in the account unless it becomes obvious that he is being guilty of breach of trust.

- In receiving notice of the principal's death, insanity or bankruptcy, the banker must suspend all operations on the account

4. Joint accounts

When two or more persons open an account jointly, it is called a joint account. The banker should take the following precautions in opening and dealing with a joint account.

1. The application for opening a joint account must be signed by all the persons intending to open a joint account.
2. A mandate containing name or names of persons authorized to operate an account.
3. The full name of the account must be given in all the documents furnished to the banker, even if the account is to be operated upon by one or a few of the joint account holders.
4. Banker must stop operating an account as soon as a notice of death, insolvency, insanity etc., of any one account holder is received.
5. The joint account holder, who is authorized to operate the joint account, himself alone

cannot appoint an agent or attorney to operate the account on his behalf

5. Join Stock Companies

The banker must satisfy himself about the following while opening an account in the name of a company:

- Memorandum of Association
- Articles of Association
- Certificate of Incorporation
- Certificate to Commence Business
- Application Form and Copy of the Board's Resolution
- A Written Mandate
- Registration of Charges
- Any Change in the Company's Constitution or Offices

6. Trustees

Any person may create trust if he is competent to do any contract. But trust is created only for lawful purposes. A trust must be for properly transferable to the beneficiary.

Following precaution must be adopted by the banker while opening an account:

1. Examination of trust deed.
    a) A banker should study the deed carefully.
    b) Objectives of the trust.
    c) Appointments and powers of the trustees, rights of trustees.
    d) Names of trustees, and their limitation of powers.

2. A banker must open the account in the name of trust.
3. All the trustees should sign on the application form and signatures card.
4. The banker should get clear instructions that who will operate the account

7. Lunatic

A lunatic has no capacity to enter into a contract with anybody; a banker knowingly Should not open an account in the name of a lunatic

In case an existing customer becomes insane, the operation of the account must be stopped immediately.

8. Drunkards

A drunkard is a person who on account of consumption of alcoholic drinks gethimself intoxicated and thereby, loses the balance over his mental capacity and hence, is incapable of forming rational judgment

A banker has to be very careful in dealing with such customers. There cannot be any objection by a banker to open an account. In case a customer approaches the banker for encashment of his cheque especially when he is drunk, the banker should not make immediate payment

9. Pardanashin Women

A Pardanashin woman is a woman who wears parda and observes complete seclusion from the member of the public as per the customs of her community.
It is very difficult to ascertain her identity.
The banker should take the following precautions while operating account with her.

- While opening account in her name, the signature should be duly attested by a responsible person know to him
- Similarly all her withdraws should be properly attested.

10. Executors and administrators

These are the persons who are appointed to conduct the affairs of a person after his death. An executor is appointed by will. An administrator is appointed by court and his powers are controlled by provisions of the law.

The banker should take the following precautions while operating account

- On the death of the customer banker should stop the payment from account
- They are allowed to operate the accounts of the deceased only after producing the letter of authorization
- Banker should protect the money of deceased
- Banker should sanction a loan or overdraft only on the production of the permission of the court

11. Local authorities

- The banker should examine the statute of the local authority in detail
- Should ascertain the office bears of the authority

- Instead the banker can operate the account in the name of local authority
- Banker should ascertain the office bears who are authorised to operate the account
- Banker should get the certified copy of the resolution passed by the local authority authorising to operate account

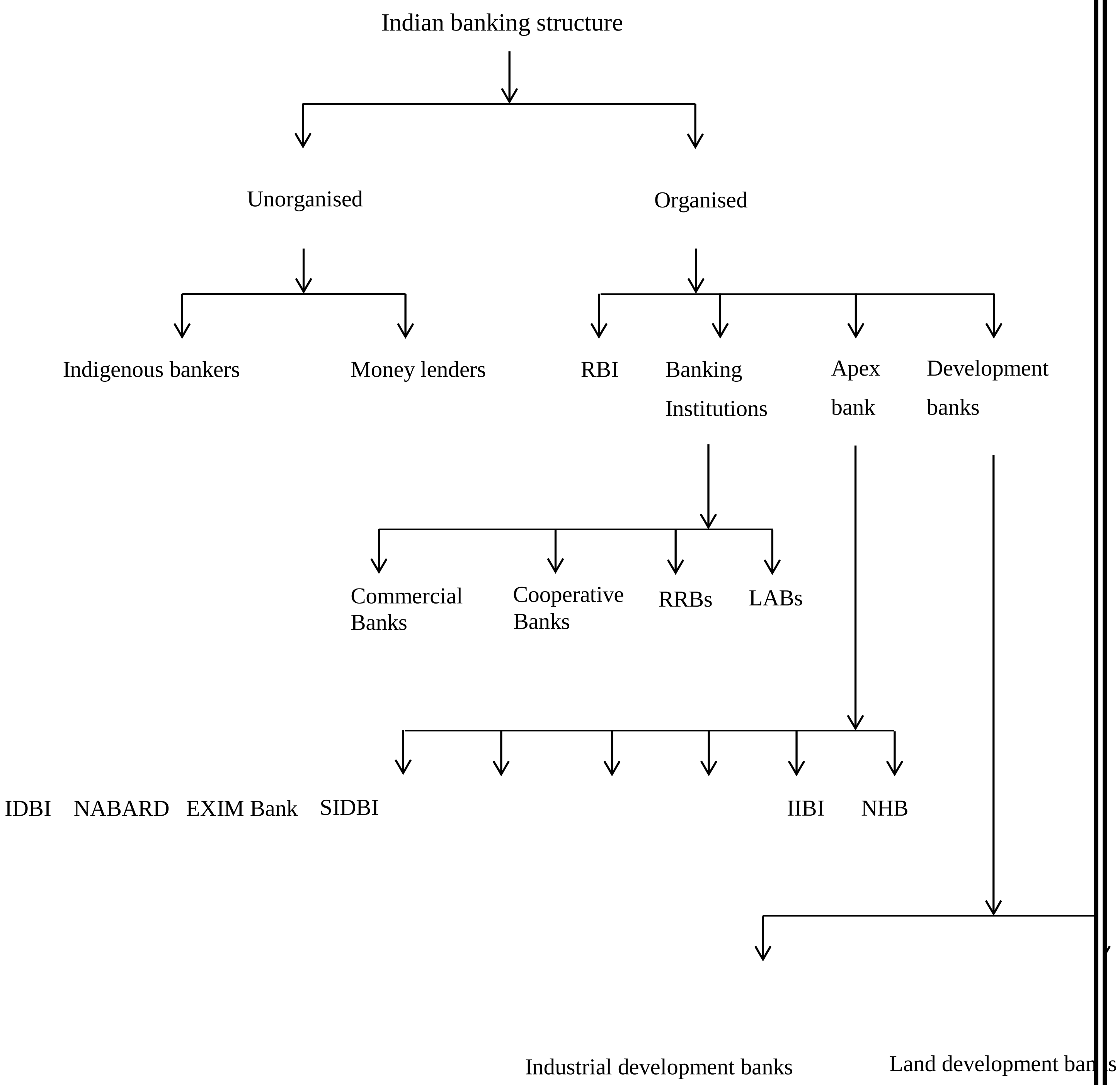
12. Illterate persons

He is a person who cannot read and write. He is legally capable to enter into valid contracts.

The banker should take the following precautions while operating account

- An illiterate person cannot sign his name in the application form. Hence he is required to affix his thumb impression and it is to witnessed by two responsible people
- It is advisable for the banker to affix a duly attested photographs on the application form
- An illiterate person is allowed to withdraw money only when he is personally present at the counter and affixing his thumb impression before the banker

STRUCTURE OF BANKING IN INDIA



Unorganised banking sector

It consists of indigenous bankers and money lenders in the country who pursue banking business on traditional lines .they cater the credit needs of large number of persons in the country side.

1. Indigenous bankers

Indigenous bankers are private firms or individuals who operate as banks and as such both receive deposits and give loans. Like banks, they are also financial intermediaries. They should be distinguished has professional moneylenders whose primary business is not banking but money lending.

- **Functions**
  - Accepts deposits
  - Lending
  - Deals in hundies
  - Non-banking functions
- **Defects**
  - Combining banking with non-banking business
  - Not organized
  - High rate of interest
  - Loans for unproductive purposes
  - Limited resources
  - Exploitation of people
  - Lack of control by RBI

2. Money lenders

Money lenders are those persons who do not accept deposits from the public, but merely lend their own funds. They lend money mainly for consumption and other domestic purposes. They lend money on personal security of borrower. If the amount of loan is a huge amount, they insist on promissory notes.

There are mainly two categories of money lenders

a) Professional money lenders

The money lenders are those persons whose main business is to lend money.it may be two types such as

i. Resident money lenders (maharaja ,sahukars ,seths or banias)
ii. Itinerant money lenders (pathans ,Kabulis and qustwalas)

b) Non professionalised money lenders

The money lenders are those persons who combine money lending with other activities.

- **Features**
  - They use their own funds for the purpose of lending
  - They lend money mainly to illiterate persons and weaker sections of the society
  - Their lending operations are prompt
  - They charge high rates of interests for the loans granted
- **<u>Difference between money lenders and indigenous bankers</u>**

Money lenders	Indigenous bankers
Money lenders do not generally accept Deposit	Indigenous bankers accept deposit and grand Loans
Money lenders do not deal in hundies.They Conduct transaction in cash	Indigenous bankers deal in hundies
Money lenders generally lend for Consumption purpose	Indigenous bankers lend for trading purpose
Money lenders Carry on their business in Rural area	Indigenous bankers are largely urban based

- **Defects**
  - Their resources are limited to meet the requirements of the rural people
  - They charge high rate of interest
  - They grant loans for consumption and unproductive purpose

- They provide loans against crops.in this way they compel the customers to supply crops to them.

Organized banking sector

Organised banking sector comprises:-

1. Central bank and monetary authority –Reserve bank of India
2. Apex banks
3. Banking institutions-commercial banks, regional rural banks, co-operative banks and local area banks
4. Development banks- industrial development banks and land development banks

Reserve Bank of India

The Reserve Bank of India (RBI), the central bank of India, which was established in 1935, has been fully owned by the government of India since nationalization in 1949. Like the central bank in most countries, Reserve Bank of India is entrusted with the functions of guiding and regulating the banking system of a country

Apex banks

The banks which stand at the top of Indian banking structure after reserve bank of India are known as apex banks. These institutions assist and support the development of other financial institutions of the country.it acts behalf of RBI and perform certain functions of RBI.

- It comprises
    - Industrial development bank of India (IDBI)
    - National bank for agriculture and rural development(NABARD)
    - Export Import bank(EXIM Bank)
    - Industrial reconstruction bank of India (IRBI)/Investment bank of India(IIBI)
    - Small industries development bank of India(SIDBI)
    - National housing bank(NHB)

- **Commercial banks**

There are two types of commercial banks in India

1. Public sector banks

2. Private Banks

Private sector bank consists of old private banks and new generation banks

- Scheduled commercial banks in India

The scheduled commercial banks are those banks which are included in the second schedule of RBI act 1934 and carry out the normal business of banking such as accepting deposits, giving out loans and other banking services.

Scheduled commercial banks can be divided into four types

1. Public sector banks
2. Private sector banks
3. Foreign banks
4. Regional rural banks

State bank of India

State bank of India is the biggest commercial bank in India.SBI have around 22,414 branches and around 200 foreign offices, is India's largest banking and financial services company by assets. With over 2 lakh employees, SBI is banker to millions of Indians. It holds an important position in the modern commercial banking system of our country.

This bank got birth in the British Era. Its first parents were three presidency banks viz. Bank of Calcutta (later Bank of Bengal), Bank of Bombay and the Bank of Madras. In 1921, these three presidency banks were merged in one entity called "Imperial Bank of India". Imperial bank was nationalized as per the recommendations of the Rural Credit Survey Committee and renamed it as State Bank of India. Thus, State bank of India is the oldest Bank of India. In 1959, there were eight associates of SBI.

- The shares of the State Bank are held by the Reserve Bank, insurance companies and the general public.
- In 2014-15 the authorised capital is 5,000 crores.
- The paid up capital of SBI as on 30.09.2017 is Rs. 863.21 crore .
- The management of the bank is vested with board of directors consisting of 15 members.
- It performs all the functions of the commercial banks.
- It responds the financial requirements of co-operative institutions and small scale industries, particularly in rural areas liberally.
- It acts as an agent of the Reserve Bank in all those places where the later does not have branches.
- Under the Pradhan Mantri Jan Dhan Yojna (PMJDY), banks have opened 31.4 crore accounts with 79,012 crore deposits till 4th April, 2018 deposited in their accounts.
- There are no associate banks. All are merged with SBI
- SBI also has non-banking subsidiaries viz. SBI Capital Markets Ltd, SBI Funds Management Pvt Ltd, SBI Factors & Commercial Services Pvt Ltd, SBI Cards & Payments Services Pvt. Ltd. (SBICPSL), SBI DFHI Ltd, SBI Life Insurance Company Limited and SBI General Insurance. SBI Business Process Management Services Private Limited.

➢ SBI Pay (BHIM)

Users now have the convenience of making bill payments, booking flight tickets, recharging and ordering food through BHIM SBI Pay.

➢ SBI Buddy

Bank's Mobile Wallet allows users to send and receive money. In addition, users can also shop: book rail, movie or flight tickets; use virtual debit card -Buddy Card to make payments withdraw cash at SBI atms using the wallet and a lot more.

➢ YONO

On 24 November, 2017, State Bank of India launched India's first comprehensive digital service platform "YÖNO", an acronym for You Only Need One'. As an integrated Omni-channel digital platform, YONO offers banking and other financial products along with access to India's largest B2C marketplace for its customers to meet their lifestyle needs across 16 categories including Fashion & Lifestyle, Electronics, Education, Home and Furnishing, Travel & Hospitality, Cab

Booking & Car Rentals, Entertainment, Food & Dining Health & Personal Care and others. With YONO, Customers can open an SBI bank account digitally in 4 minutes. The customers can avail Pre-approved personal loan sans any paperwork in 4 clicks. Customers get overdraft facility against fixed deposit instantly online.

Regional rural banks (RRBs)

In the early 1970s, there was a feeling that even after nationalization, there were cultural issues which made it difficult for commercial banks, even under government ownership, to lend to farmers. This issue was taken up by the government and it set up Narasimham Working Group in 1975. On the basis of this committee's recommendations, a Regional Rural Banks Ordinance was promulgated in September 1975, which was replaced by the Regional Rural Banks Act 1976.

- Regional Rural Banks came into existence with the joint efforts of the central government, state government and other commercial banks.
- The Regional Rural Banks (Amendment) Bill, 2014, was passed in Lokasabha. As per this amendment a Regional Rural Bank has an authorized capital Rs 2000 crores, and the share capital of the RRBs could be split into 200 crore equity shares of Rs 10 each.
- The issued capital of RRBs is shared by Central Government, sponsor bank and the State Government in the proportion of 50%, 35% and 15% respectively.
- The area of operation of a majority of the RRBs is limited to a notified area comprising a few districts in a State. As on 31.3.2020, there are 43 RRBs.
- The main objective of Regional Rural Banks is to enhance the local participation of banks to meet the credit requirements of weaker sections, particularly the small and marginal farmers, landless labourers, artisans and small entrepreneurs in rural areas.
- The total number of RRBs declined from 196 to 56 as on March 31, 2015. The branch network of these amalgamated RRBs was quite large.

➢ Regional rural banks perform the following two functions:

  - Granting of loans and advances to small and marginal farmers, agricultural workers, co-operative societies including agricultural marketing societies and primary agricultural credit societies for agricultural purposes or agricultural operations or related purposes.
  - Granting of loans and advances to artisans small entrepreneurs engaged in trade, commerce or industry or other productive activities.

Scheduled banks

A scheduled bank is a bank which is included in the second schedule of the Reserve Bank of India Act 1934 and it will fulfill three conditions.

1. It has a paid up share capital and reserves of at least 5 lakhs.
2. It ensures the Reserve Bank that its operations are not detrimental to the interest of the depositors.
3. It is a corporation or a co-operative society and not a partnership or a single owner firm.

Non Scheduled Banks

Commercial banks which have a paid up share capital and reserves of an aggregate value of less than 5 lakhs is considered as non-scheduled banks. Their names do not appear in the second schedule of the Reserve Bank of India Act. They are under the obligation to maintain a minimum 5 % of their deposits with some scheduled commercial bank. At present we have 4 non-scheduled commercial banks.

- **Developmental Banks**

Developmental Banks are banks that provide financial assistance to business that requires medium and long-term capital for purchase of machinery and equipment, for using latest technology, or for expansion and modernization. Developmental banks also known as industrial banks. A development bank is a multipurpose institution which shares entrepreneurial risk, changes its approach in tune with industrial climate and encourages new industrial projects to bring about speedier economic growth. These banks also undertake other development measures like subscribing to the shares and debentures issued by companies, in case of under subscription of the issue by the public. There are three important national level development banks. They are;

Industrial Development Bank of India (IDBI)

The IDBI was established on July 1, 1964 under an Act of Parliament. It was set up as the central co-ordinating agency, leader of development banks and principal financing institution for industrial finance in the country. Originally, IDBI was a wholly owned subsidiary of RBI. But it was delinked from RBI with effect from February 16th 1976.

Objectives

1. To coordinate the activities of the all financial institutions.

2. To provide term finance to industry.

3. To provide direct financial assistance to industrial units to bridge the gap between the supply of and demand for medium term financing of industrial concerns.

4. To provide technical and administrative assistance for the promotion expansion and management of industrial concerns.

5. To undertake market and investment research and surveys as also technical and economic studies in connection with development of industry.

6. To act as a lender of last resort and to finance projects that is in conformity with national priorities.

Functions of IDBI before 2004

- **Direct Assistance to large and medium industries**

It assisted industrial units directly in the following ways.

1. It provides project loan and It underwrite and subscribes directly the shares and debentures of industrial concerns.

2.1t grants direct finance to industrial concerns by way of medium long term loans and advances.

3. It provides soft loans for modernization of all industries.

4. It provides technical development fund loans and equipment finance loans. Equipment Finance loan is granted under Equipment Finance Scheme which was introduced in 1984,

5. It provides for financing capital expenditure and long term working capital requirements of financially sound companies which are in commercial operation for five years and have shown profits consistently for the last three years.

- **Indirect finance to tiny, small and medium industries.**

It was done in the following ways.

1. Refinancing of industrial loans granted by State Financial Corporations (SFC). State Industrial Development Corporations (SIDC), Commercial banks, Co-operative banks and Regional Rural Banks (RRB).

2. Rediscounting of bills arising out of sale of indigenous machinery on deferred payment basis, and

3. Seed capital assistance granted to new entrepreneurs generally through SFCS and SIDCS.

Special assistance

IDBI Act of 1964 provided for the creation of a special fund known as Development Assistance Fund. IDBI uses this fund to assist the industrial concerns which are not able to secure funds in the normal course either because of heavy investment or because of low rate of return or both.

Other assistance

i) The bank undertakes promotional activities such as industrial research and surveys and other related activities for the development of industries.

ii) It subscribes to the shares and bonds of SFCS, SIDCS and National Small Industries Corporation Limited

iii) It has undertaken to finance exports till the establishment of Exim Bank in March 1982.

iv) It gives assistance for pollution control Projects of industrial units.

v) Assistance is provided to set up affluent treatment plants

vi) It provides technical and administrative advice for promotion, expansion and better management of the industrial concerns.

- Subsidiaries of IDBI
  - IDBI capital market service ltd(ICMS)
  - IDBI Home finance ltd

- IDBI Intech ltd
- IDBI gilts ltd

Export Import Bank of India (EXIM Bank):

The Export-Import (EXIM) Bank of India is the principal financial institution in India for coordinating the working of institutions engaged in financing export and import trade. It is a statutory corporation wholly owned by the Government of India. It was established on January 1, 1982 for the purpose of financing, facilitating and promoting foreign trade of India. This specialized bank grants loans to exporters and importers and also provides information about the international market. It also gives guidance about the opportunities for export or import, the risks involved in it and the competition to be faced, etc.

- **Objectives**

1. The main object of this bank is to finance, facilitate and promote foreign trade in India.

2. To act as a principal financial institution for coordinating the working of institutions engaged in financing export and import trade of India.

3. To finance Indian exports that lead to contribute foreign exchange to our country.

4. To collect, compile and disseminate market and credit information in respect of international trade.

Functions

1. It provides financial help for the export or import of goods and services, not only of India but also of third world countries.

2.1t provides financial help for the exports and imports of machinery and equipment onlease basis

3. Financing of joint ventures in foreign countries

4. It provides loans to an Indian party so as to enable it to contribute in the share capital of a joint venture in a foreign country.

5. Undertakes a limited merchant banking activities such as underwriting of stocks, shares, debentures etc. Of companies engaged in import and export sectors.

6. It provides technical, administrative and financial assistance to parties engaged in export - import sectors.

- Funds
  - The authorized capital of Exim bank is 10000 crores.
  - The paid up capital as as on March 31, 2015, stood at 5,059 crore.
  - The entire paid up share capital was held by Government of India.
  - It can raise fund by way of borrowings from the Government of India, The Reserve Bank of India, the domestic and international capital markets as well as deposits from the pubic bearing a term exceeding one year and from the open market through issue of bonds and debentures
- Schemes for financial assistance

1. Loans to Indian companies

a) Direct financial assistance to exporters.

b) Overseas investment finance to Indian promoters of overseas joint ventures for equity participation in the form of export of plant and machinery or cash remittances.

c) Technology and consultancy services.

d) Pre-shipment credit to finance export contracts for capital goods. 2. Loans to foreign governments, companies and financial institutions under its overseas Buyers Credit Scheme, Lines of credit to foreign governments and relenting facility to bank overseas

3. Loans to commercial banks

a) Export bills rediscounting facility

b) Refinance of export credit

4. Guarantees: It participates with commercial banks in the guarantees issued in foreign currencies on behalf of the Indian contractors/exporters in favour of overseas employer’s importers.

Co-operative banks

Co-operative banks are banks incorporated in the legal form of cooperatives. Any cooperative society has to obtain a license from the Reserve Bank of India before starting banking business and has to follow the guidelines set and issued by the Reserve Bank of India

Local area banks

Government decided to allow Local Area Banks in 1996. RBI issued guidelines in this respect. It is allowed to function with a view to provide institutional mechanism for promoting rural savings as well as for the provision of credit for viable economic activities in the local areas… The minimum paid up capital of such banks would be 5 crores.

The area of operation will be a maximum of three continuous districts and the registered office will be within the area of operation. The labs are allowed to open branches in rural and semi urban areas of their area of operation.

Payment banks

Payment banks are the latest initiative from the Reserve Bank of India (RBI) with the primary motive to promote digital, paperless and cashless banking in our nation. It is an approach in which other non-banking financial organizations are granted the authority to offer basic bank services to every Indian citizen.

Small finance banks

The small finance bank will undertake basic banking activities of acceptance of deposits and lending to unserved and underserved to further financial inclusion in the country. It will provide banking facilities to the unbanked sections and thereby boosting saving habits. It will mainly target small business units, marginal farmers, and unorganized sector entities through high technology low cost operations.

National Bank for Agriculture and Rural Development (NABARD)

It is an apex development bank for agriculture and rural development. It was set up an 12th July 1982 with a paid up share capital of 100 crore by way of merging the Agricultural Credit Department and Rural Planning and Credit Cell of the Reserve Bank of India and the entire undertaking of Agricultural Refinance and Development Corporation(ARDC).

NABARD facilitates credit flow for promotion and development of agriculture, small-scale industries, cottage and village industries, handicrafts and other rural crafts. It also has the mandate to support all other allied economic activities in rural areas, promote integrated and sustainable rural development and secure prosperity of rural areas

- Objectives

1. To integrate the various financial institutions involved in the areas of rural development.

2. To provide guidance in all the matters concerning the formulation and implementation of the rural development programmes.

- Functions
  - Takes measures towards institution building for improving absorptive capacity of the credit delivery system, including monitoring, formulation of rehabilitation schemes, restructuring of credit institutions, training of personnel, etc.
  - Co-ordinates the rural financing activities of all institutions engaged in developmental work at the field level and maintains liaison with Government of India, State Governments, Reserve Bank of India (RBI) and other national level institutions concerned with policy formulation
  - Undertakes monitoring and evaluation of projects refinanced by it.
  - NABARD refinances the financial institutions which finances the rural sector.
  - The institutions which help the rural economy, NABARD helps develop. F) NABARD also keeps a check on its client institutes.
  - It regulates the institution which provides financial help to the rural economy. H) It provides training facilities to the institutions working the field of rural upliftment.
  - It regulates the cooperative banks and the RRB
- Schemes of NABARD
  - Krishak saathi scheme(KSS)
  - Village development plan
  - Watershed projects in 31 distressed districts
  - Financial inclusion

Land development banks

- **Industrial reconstruction corporation of India(IRCI)**

The industrial reconstruction corporation of India limited was set up in April 1973 as a primary agency for rehabilitation of industrial sick units. The main purpose of IRCI was to prevent and Cure the problems of industrial sickness. Its authorized capital was rs 25 crores, issued capital of rs 10 crores and paid up capital of rs 2.5 crore.

- **Industrial reconstruction bank of India**

Industrial reconstruction bank of India took over industrial reconstruction corporation of India with effect from 20th march 1985.it is the principal credit and reconstruction agency for industrial modernization, expansion, re-organization, diversification or rationalization of industry.

- **Industrial investment bank of India (IIBI)**

IRBI was reconstituted as industrial investment bank of India in March 1997

➢ Functions

1. It grants loans and advances to industrial concerns
2. It underwrites stocks, shares, bonds and debentures performance
3. It guarantees loans/ deferred payments and undertaken by industrial concerns and obligations of any contracts

4. Acts as an agent of Central and State Governments, RBI, State Bank, Scheduled Commercial Banks, state co-operative banks, public financial institutions, State Financial Corporation etc.

5. It provides ancillary services such as consultancy, merchant banking and Equipment leasing. IRBI prepares viability report of sick units, schemes of amalgamation, merger, reconstruction, sales etc and implementation thereof and providing land and machinery on lease basis.

6. It adopts developmental activities like providing infrastructural facilities, raw materials etc.

Small industries development bank of India (SIDBI)

SIDBI is wholly owned subsidiary of IDBI It was set up under a separate Act of Parliament on 2 April 1990 .It is an apex body for small units giving refinance to State Financial Corporations and Twin Function Industrial Development Corporations, Scheduled Commercial Banks and State Co-operative Banks Scheduled Urban Co-operative Banks and Regional Rural Banks. It has taken over IDBI's financing activities relating to small scale sector.

Mission: To empower the Micro, Small and Medium Enterprises (MSME) sector with a view to contributing to the process of economic growth, employment generation and balanced regional development.

- Objectives

1. To take initiating steps for technological up gradation and modernization of existing units.
2. To expand the channels of marketing the products of the small scale sector.
3. To promote employment oriented industries, especially in semi urban areas to create more employment opportunities ant there by checking migration population to urban areas.

- Functions

1. Refinancing of term loans granted by banks and other eligible financial institutions, namely the State Financial Corporation, and State Industrial Development Corporations.

2. Discounting as well as rediscounting of bills

3. Provide equity type of assistance under National Equity funds and by way of seed capitalto entrepreneurs.

4. It provides support services to small scale sector for entrepreneur development, development of managerial cadre, export promotion and marketing,

5. It provides services like leasing, factoring etc to small scale sector industries.

6. It extends financial support to State Small Industries Development Corporations to provide scarce raw materials, marketing the end products of industries in small scale sector.

7. Extends financial support to National Small Industries Corporation

- Schemes
  - National equity fund scheme
  - Automatic refinance scheme
  - Single window scheme

MUDRA BANK

Micro Units Development and Refinance Agency Bank (or MUDRA Bank) is a public sector financial institution in India. It provides loans at low rates to microfinance institutions and non-banking financial institutions which then provide credit to MSME's. It was launched by Prime Minister Narendra Modi on 8 April 2015. The MUDRA banks will be set up under the Pradhan Mantri MUDRA Yojana scheme. It will provide its services to small entrepreneurs outside the service area of regular banks, by using last mile agents.

- The bank will have a initial corpus of 20,000 crore (about US$3,213.86 million) and a credit guarantee fund of Rs3,000 crore.

- The bank will initially function as a non-banking financial company and a subsidiary of the Small Industries Development Bank of India (SIDBI). Later, it will be made into a separate company. It will also serve as a regulator for other Micro finance institutions and provide them refinancing services.

➢ Objectives of the MUDRA Bank

1. Regulate the lender and the borrower of microfinance and bring stability microfinance system through regulation and inclusive participation.
2. Extend finance and credit support to Microfinance Institutions (MFI) and agencies that lend money to small businesses, retailers, self-help groups and individuals.
3. Register all mfls and introduce a system of performance rating and accreditation for the first time. This will help last-mile borrowers of finance to evaluate and approach the MFI that meets their requirement best and whose past record is most satisfactory. This will also introduce an element of competitiveness among the MFIS. The ultimate beneficiary will be the borrower.
4. 4. Provide structured guidelines for the borrowers to follow to avoid failure of business or take corrective steps in time. MUDRA will help in laying down guidelines or acceptable procedures to be followed by the lenders to recover money in cases of default.
5. Develop the standardized covenants that will form the backbone of the last-mile business in future

6. Offer a Credit Guarantee scheme for providing guarantees to loans being offered to micro businesses

7. Introduce appropriate technologies to assist in the process of efficient lending, borrowing and monitoring of distributed capital

8. Build a suitable framework under the Pradhan Mantri MUDRA Yojana for developing an efficient last-mile credit delivery system to small and micro businesses.

National Housing Bank (NHB)

It was established under the National Housing Bank Act 1987 as per the recommendations made by a high level group headed by Dr. Rangarajan. It started its functioning from 9th July 1988. It is wholly owned by Reserve Bank of India. It is the apex institution in the matter of housing finance

NHB was set up Initial share capital of rs 100 crores entirely subscribed by the reserve bank. The share capital was raised to rs 250crores in March 1992.

- Objectives

1. To promote and develop the specialized housing finance institutions for mobilizing resources and extending credit for housing

2. To extent refinance facilities to housing finance institutions and to scheduled banks.

3. To provide guarantee and underwriting facilities to housing finance institutions:

- Functions

1. It formulates schemes for mobilization of resources

2. It extents credit for housing. (Including the economically weaker section of the society which is supported by subsidies from central and state governments)

3. It provides guidelines to housing finance institutions to ensure their growth on sound lines.

4. It provides technical and administrative assistance and to coordinate with various agencies connected with housing.

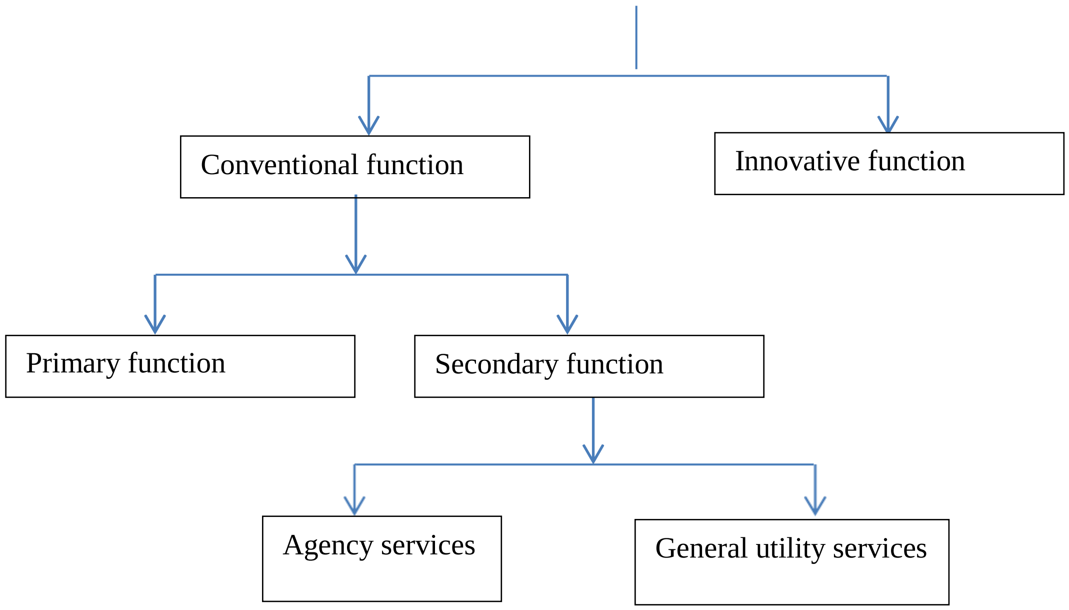
5. It provides refinance and direct finance to eligible institutions in housing finance.

Banks and economic development

- Stimulation of the savings
- Capital formation
- Facilitate agriculture development
- Innovating entrepreneurs
- Promotion of small scale industries

- Monetization of economy
    - **(1)** Monetization of debts
    - **(2)** Opening new branches
- Facilitate international trade
- Creates employment opportunities
- Influencing economic activities
    - **1)** Variation in interest rate
    - **2)** Availability of credit
- Implementation of monetary policy
- Encouraging right type of industries
- Balanced development

Functions of commercial banks



Primary functions

- Receiving deposit from the public
- Making loans and advances
- Credit creation
- Use of cheque system and the plastic card

- Transfer of funds

Secondary functions

1. Agency services

- Collection of credit instruments
- Collection of dividends
- Acts as trustee or executor
- Purchase and sale of securities
- Acting as a representative or correspondent
- Remittance of funds
- Deals foreign exchange
- Act as agents for any government ,local authority
- Acts as an administrator

2. General utility services

- Safe custody of valuables
- Locker facility
- Letter of credit
- Fund transfer
- Provides information
- Act as referees
- Underwrites shares
- Issue of gift cheque
- Foreign exchange
- Credit cards
- Travellers cheque
- Collection of statistics

Innovative function

- Provision of ATM services to customers
- Credit card facility

- Tele banking
- Personal computer banking or home banking
- Internet banking
- Electronic fund transfer system
- Electronic clearing services
  - **a)** Credit clearing
  - **b)** Debit clearing
- Real time gross settlement system(RTGS)
- Bancassurance
- Mobile banking

Emerging trends of banking in India

- Banking regulation at,1949
- Creation of SBI
- Nationalization of banks
- Lead bank scheme
- Deposit insurance and credit guarantee scheme
- Number of banks
- Branch expansion
- Increase in deposits and credits
- Change in the composition of deposits
- Credit expansion
- Advance to priority sector
- Micro-finance
- Reserve bank control
- Industrial finance
- Development oriented banking
- Shift of banking from big customers to small customers
- New innovations and diversifications
- Technology adoption
- Online payment services
  - **1)** Electronic payment services-E-cheques
  - **2)** Shopping online

3) Prepaid mobile refill
4) Bill pay
5) Register and pay
6) RTGS fund transfer
7) Online payment of taxes
8) Electronic fund transfer(EFT)
9) Electronic clearing services(ECS)
10) Automatic teller machine(ATM)
11) Point of sale terminal
12) Tele banking
13) Electronic data interchange(EDI)
14) NEFT

- Multi-channel banking
- Mergers and acquisition of banks
- Mobile banking transactions
- Outsourcing activities of Indian banks
- Financial inclusion
    1) No frills account
    2) Pradhan mantri jan dhan yojana
    3) New license
    4) Latest technology and service offerings
    5) UPI application
    6) Aadhar based payments
    7) BHIM aadhar
    8) QR Code to enhance quantitative reach out

CENTRAL BANK

Introduction

- Central bank is the supreme monetary authority of a country
- It is a public organisation that usually issues the currency, regulates the money supply, and controls the interest rates in a country
- It possess the monopoly on printing the national currency
- The primary function of a central bank is to provide the nation's money supply

1. Functions of central bank
   1. Monopoly of note issue
   2. Bankers, agent and advisor to the government
   3. Custodian of cash reserve of commercial bank
   4. Custodian of nation's reserve of international
   5. Lender of the last resort
   6. Clearing house functions
   7. Credit control
   8. Collection of data

Reserve Bank of India (RBI)

- RBI is our central bank, was established in 1935
- It is the authority to regulate and control the monetary system of our country
- It have an authority to control money market
- It has given the power to pursue an appropriate credit policy
- It regulate the banking system of our country

Organization

- It was originally organised as shareholder's bank with a paid share capital of rs 5 cr divided into 5 lakh shares of rs 100 each
- Out of this, share of rs 230000 were allotted to central government for disposal at par to directors of the central board of bank seeking to obtain minimum share qualification
- The balance of share capital owned by private individual
- The RBI nationalized in the year 1948 by way of passing the reserve bank of india act 1948

- It started functioning as a state owned and state controlled central bank from 1st January onwards
- The authorized, subscribed and paid share capital of RBI is rs 5 cr

Management

- Central board- one governor, not more than four deputy governors and fifteen directors
- Local boards for four regional areas of the country

Department of RBI

- Issuedepartment
- Banking department
- Department of currency management
- Department of government and bank accounts
- Exchange control department
- Department of banking operations and development
- Industrial finance department
- Agriculture credit department
- Rural planning and credit department
- Department of non- banking companies
- Legal department
- Inspection department
- Department of research and statistics
- Department of administration and personnel
- RBI service board

➢ Functions of RBI

a) Monetary functions

1. Monopoly of note issue
2. Banker to the government
    - As a banker
    - As a financial advisor
    - As a financial agent
3. Acts as clearing house
4. Controller of credit

1. Quantitative credit control weapons

1. Bank rate policy
2. Open market operations
3. Variable cash reserve ratio
4. Variable statutory liquidity ratio

2. Selective credit control

5. Issuing of directives
6. Regulation of margin requirements
7. Differential rates of interest
8. Restriction on clean advances
9. Credit liberalization to selected sectors
    - Credit authorization scheme
    - Loan system for delivery of bank credit
10. Moral suasion and credit rationing
11. Direct action
12. Control of foreign exchange operations

b) Non- monetary functions

5) Supervisory functions

- Promotional functions
- Granting of rural credit
- Provision of industrial finance
- Collection and publication of statistics related with financial economic matters

MODULE 2

NEGOTIABLE INSTRUMENTS

Negotiable instrument act 1881

- It extends to the whole of India except the state of Jammu and Kashmir.
- The act came into force on 1st march 1880
- It is recently amended by " the banking, public financial institutions and negotiable instruments laws (amendment) act 1988"

Meaning

- There are certain documents which are freely used in commercial transactions is called *Negotiable instruments*
- It is a written document which create a right in favour of some person and which is freely transferable.
- these are money/ cash equivalents can be converted into liquid cash subjects to certain conditions
- It is a document guaranteeing the payment of a specific amount of money, either on demand, or at a set time.
- It is a written document which creates a right in favour of some person and which is freely transferable.
- It is a written promise or order to pay money which may be transferred from one person to another

Definition

- According to justice willis a negotiable instrument is " *one, the property in which is acquired by anyone who takes it bonafide and for value not withstanding any defect in the title of the person from whom he took it"*
- According to section 13 of the negotiable instruments act 1881, *a "negotiable instrument" means a promissory note, bill of exchange or cheque payable either to order or to bearer*

- A negotiable instrument may be made payable to two or more payees jointly, or it may be made payable in the alternative to one of two, or one or some of several payees.
- The act recognizes three instruments as negotiable instruments, ie. Promissory note, cheque and bill of exchange. But it does not exclude those instruments which satisfy the conditions of negotiability. The conditions are;
  1. The instrument should be freely transferable by the custom of trade
  2. The person who obtains it in good faith and for value gets it free from all defects, and thus, is entitled to recover the money of the instrument in his own name

➢ Special features/characteristics of negotiable instruments

- Freely transferable
- Negotiability
- In writing
- Un conditional order or promise
- Payment of certain sum of money
- Time of payment
- The payee must be a certain person
- A negotiable instrument must bear the signature of its maker
- Delivery of the instrument is essential
- Stamping of bills of exchange and promissory notes is mandatory
- The negotiable instrument was duly stamped

➢ Types of negotiable instruments

a. Instruments negotiable by law
   1) Promissory notes
   2) Bills of exchange
   3) Cheque

b. Instruments negotiable by custom or usage of trade
   1) Hundies
   2) Bank draft
   3) Dividend warrant
   4) Share warrant
   5) Postal order
   6) Railway receipt

Promissory note

- It is a written promise to a pay a debt. It is a financial instrument, in which one party (maker or issuer) promises in writing to pay determinate sum of money to the other (the payee), either at a fixed, determinable future time or on demand of the payee subject to specific terms.
- A promissory note is an instrument of credit which possess the characteristics of negotiability.
- It is signed document containing a written promise to pay a stated sum to a specified person or the bearer at a specified date or on demand.
- This can be either payable on demand or at a specified time.
- If the promissory note is unconditional and readily salable, it is called negotiable instrument.
- As per section 4 of the negotiable instrument act a promissory note *is "an instrument in writing (not being a bank note or a currency note) containing unconditional undertaking, signed by the maker, to pay a certain sum of money only to or to the order of a certain person or to the bearer of the instrument"*

➢ Essential characteristics of a promissory note

- It must be in writing
- The promise to pay must be unconditional
- The amount promised must be certain and a definite sum of money
- The instrument must be signed by the banker
- The maker must be a certain person
- The person to whom the promise is made must be a definite person
- It should be payable on demand or after a certain period
- Delivery of document is essential
- It must be properly stamped as required by the indian stamp act

➢ Parties to a promissory note

1) The maker or drawer
2) The payee
3) The endorser
4) The endorsee

Bill of exchange

- as per section 5 a bill of exchange "is an instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money only to, or to the order of, a certain person or to the bearer of the instrument"
- It is a written acknowledgement of the debt, written by the creditor and accepted by the debtor. It is called a draft before its acceptance. It has to be accepted either by the person upon whom it is drawn or by someone else on his/her behalf

➢ The essentials of a bill of exchange are:
- Number of parties
- Must be writing
- It must be signed by the drawer
- Express order to pay
- Order must be unconditional
- Order to pay money only
- Sum payable to be certain
- Parties
- Must be signed
- Acceptance
- Must bear the stamp
- Other formalities
- Requisites of a contract to be compiled with

➢ Classification of bill of exchange

a) On the basis of period of bills
   1) Demand bills
   2) Term bills

b) On the basis of purpose of writing the bills
   1) Trade bills
   2) Accommodation bills

c) Inland bills

d) Foreign bills

➢ Parties to a bills of exchange
- Drawer

- Drawee
- Payee
- Acceptor
- Endorser
- the endorsee
- The holder
- Drawee in case of need
- Acceptor of honour

Acceptance

- Drawee is buyer of the goods upon whom the bill of exchange is drawn
- If the drawee is ready to make payment on due date, he has to write the word "accepted" in the bill and put his signature on it
- After writing the word "accepted" and putting signature, the drawee of the bill is known as acceptor. This process is called acceptance.
- After acceptance, the bill becomes a valid legal document
- There are two types of acceptance namely general acceptance and qualified acceptance
- The general acceptance requires signatures of the acceptor only without stating any conditions
- A qualified acceptance varies the express terms of the bill as originally drawn and thereby the drawer can refuse to consider the bill as accepted

Cheques

- When customer opens a current and savings account , the bank provided a cheque book for operating his account
- A cheque book contains 10 or 20 printed blank cheque leaves serially numbered
- A cheque is a negotiable instrument. It is transferable either by mere delivery or by endorsement and delivery.
- It gives a good and absolute title to the transferee who takes it good faith and for vale and without notice to the fact that any defect is existed in the title of the transferor.
- Section 6 of the negotiable instrument act 1881 defined a cheque as *" a bill of exchange drawn on a specified banker and not expressed to be payable otherwise on demand"*
- A cheque is always drawn on a specified banker

- It is always payable on demand

➢ specimen of cheque

➢ Parties to the cheque

- Drawer
- Drawee
- Payee

➢ Essential features of a cheque or requisites of a valid cheque

- Instrument in writing
- An unconditional order
- It is always drawn on a specified banker
- It is drawn only by the customer of a bank
- It must be signed by the drawer
- The order must be for the payment of money
- A certain sum of money only
- Payable on demand
- Payee should be a certain person

➢ Difference between a cheque and bill of exchange

Cheque	**Bill of exchange**
Always drawn on a printed form	Need not be drawn on a printed form
It doesn‟t require acceptance	Acceptance by the drawee is essential
It may be drawn only on a banker	It can be drawn on an person including Banker
It is always payable on demand	It is payable on demand or after date
It can be crossed	It cannot be crossed

Days of grace is not allowed	Days of grace is allowed
It may be countermanded	It cannot be countermanded
It can be made payable to bearer	It can be made payable only to order
It is used a means of payment	It used for financing trade
It cannot be protest or noted on dishonour	It is usually protested noted on dishonour

- kinds of cheques

  1.Bearer cheques

  2.Order cheques

  3.MICR cheques

  4.Truncated cheque

  5.Electronic cheque

- Cheque truncation – cheque truncation system (CTS)
  - Cheque truncation means that the physical cheque is scanned at the bank of first deposit (presenting bank) and thereafter the electronic image of the cheque is sent to the clearing house for sorting and then routing onwards to the drawee/paying bank
  - CTS is a cheque clearing system undertaken by the RBI for quicker cheque clearance
- Dating of cheque
  - Writing the date on the face of the cheque is known as dating of cheques
  - Generally the drawer of a cheque writes the date before it is issued. If he doesn‟t do so the cheque will not become invalid.
  - The payee or any subsequent holder can fill the date. The date should be complete in all aspects
- Ante – dated cheque

  A cheque which bears a date earlier to the date of issue is known as ante- dated cheque
- Post-dated cheque

  A cheque bears a date which is yet to come is called post –dated cheque
- Stale cheque

  A cheque which is not presented for payment within reasonable period of time is called a stale cheque
- Mutilated cheque

  If a cheque is torn into two or more pieces, it is called mutilated cheque
- Holder of a cheque

- Section 8 of the negotiable instrument act 1881 defines the holder of a negotiable instrument as "any person who is entitled in his own name to the possession thereof and to receive or recover the amount due thereon from the parties thereto"
- a person becomes the holder of a negotiable instrument, if he satisfies the following conditions;

1. To be a holder, one need not possess the instrument. But he should be entitled to possess the instrument in his own name
2. In order to be entitled to the possession of the instrument in his own name, the person must be named in the instrument as a payee or endorsee or he must be the bearer of the instrument
3. He should have the actual or constructive possession of the instrument lawfully.
4. Mere physical possession is not sufficient. He must be entitled to receive and recover the money from the parties concerned

➢ Holder in due course

- Section 9 of the negotiable instrument act 1881 defines holder in due course as "any person who, for consideration, became the possessor of the instrument before the amount mentioned in it became payable, and without having sufficient cause to believe that any defect existed in the title of the person from who derives his title"
- A person can became a holder in due course only if he satisfies the following conditions;
  1. He must obtain the possession of the instrument as a payee or endorsee in the case of an order instrument and bearer in the case of a bearer instrument
  2. The instrument must have been obtained for valuable consideration that is by paying to the full value
  3. The instrument must be obtained before its maturity
  4. He must obtain the instrument in good faith and without sufficient cause to believe that any defect existed in the title of the transferor

➢ Differences between holder and holder in the due course

Holder	**Holder in due course**
A holder of a negotiable instrument need not Necessarily be a holder	A holder in due course must be a holder
A holder might have obtained the instrument Without any consideration	A holder in due course must obtain the Instrument for valuable consideration

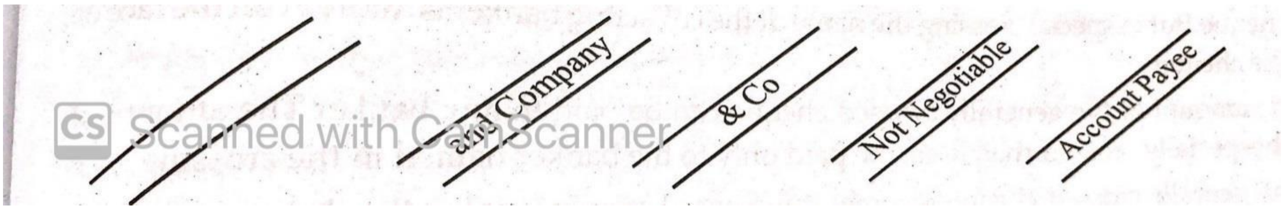
A holder might have acquired the instrument Before its maturity or after its maturity	A holder in due course must have obtained the Instrument before its due date
A holder may take an instrument with or Without the notice of any defect in the title of the transferor	A holder in due course must have taken the Instrument without any notice of defect in the title of the transferor
A holder of a negotiable instrument will not Get a better title than that of the transferor	A holder in due course will get a better title Than that of the transferor
A negotiable instrument which passes through The hands of holder doesn"t takes its all bad aspects.	A negotiable instrument which passes through The hands of holder in due course takes its all bad aspects

- Crossing of cheque
  - Cheques are two types namely open cheques and crossed cheques
  - A cheque without crossing is called an open cheque. These are payable at the counter of the bank to any person who present it
  - A crossing is a direction to the paying banker to pay the amount of the cheque only to a banker and not directly to a person who presents it at the counter
  - Crossing of a cheque means drawing across the face of the cheque two parallel transverse lines with or without the words "any company".
  - Crossing can be hand written or stamped
- Types of crossing

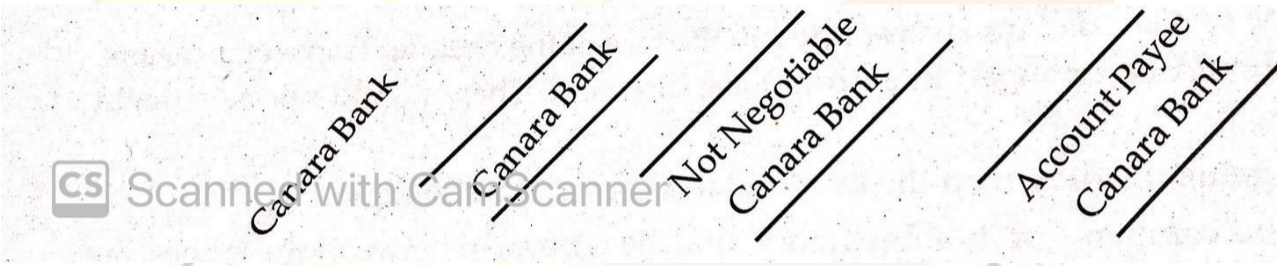
1) General crossing

- There must be two parallel transverse lines on the face of the cheque
- The lines are generally drawn on the left hand top corner of the cheque
- The words „and company" or its abbreviation may be written in between these lines
- The words such as „not negotiable" or „account payee" can also be added with a general crossing
- The paying banker is required to pay the amount of a generally crossed cheque to another bank and not to the holder.

- Examples of general crossing



- Special crossing
  - Section 124 of the negotiable instrument act 1881 defines a special crossing as "where a cheque bears across its face, the addition of the name of a banker, with or without the words „not negotiable" , that addition shall be deemed a crossing, and the cheque shall be deemed to be crossed specially, and to be crossed to that banker"
  - Two parallel transverse lines are not at all essential for a special crossing
  - The name of the collecting banker should be specified in the crossing
  - The words such as „not negotiable" or „account payee" can also be added with a special crossing
  - The paying banker is required to pay the amount of a specially crossed cheque to the banker named in the crossing
  - The special crossing makes a cheque safer than generally crossed cheque
- Examples of special crossing



- Difference between general crossing and special crossing

General crossing	Special crossing
Two parallel transverse lines are essential in General crossing	These are not essential in special crossing
The words „and company" may or may not be Written in general crossing	These words are not written in special Crossing
In general crossing the name of the collecting Banker is not written on the face of the	In special crossing the name of the collecting Banker is written on the face of the cheque

Cheque	
The amount of the generally crossed cheque can be paid to any banker	The amount of the specially crossed cheque can be paid only to the banker named in the Crossing
The generally crossed cheque becomes safe	Special crossing makes the cheque more Safer than generally crossing

Not negotiable crossing

- The word „not negotiable" may be included in general and special crossing
- Not negotiable means not transferable. It doesn"t affect the transferability but it only takes way the negotiability of the cheque
- Negotiability means transferability by mere delivery and endorsement plus transferability free from defects.
- The cheque crossed „not negotiable" can be transferred like any other cheque. But the transferee will not get better title than that of the transferor. If the title of the transferor is defective, the title of the transferee will also de defective

➢ Account payee crossing

- This type of crossing gives further protection to a cheque
- It is a direction to the collecting banker that he should collect the cheque for the benefit of the payee only and nobody else

➢ Double crossing

- It is crossing a cheque specially to more than one banker
- A cheque cannot have double or special crossing because the very purpose of the first crossing is defeated by the second crossing

➢ Obliterating a crossing

- It means erasing the crossing on the cheque
- Sometimes, the crossing on a cheque is erased by a dishonest person. Such obliteration may be made so cleverly as to make it difficult for the paying banker to detect it and consequently he makes the payment of the cheque at the counter

➢ Opening of crossing

- If the crossing on the cheque is cancelled, it is called the opening of crossing. Then it becomes an open cheque
- The drawer alone has the right to cancel the crossing

- He can cancel the crossing by writing the words „pay cash‟ and putting his full signature.

Demand draft

- it is an instrument used for effecting transfer of money. It is a negotiable instrument
- Section 85 of negotiable instrument act "a demand draft is an order to pay money drawn by one office of a bank upon another office of the same bank for a sum of money payable to order on demand
- The validity period of a demand draft is 3 months, but it can revalidated on application.
- It can never be dishonoured because its payment is done in advance
- A demand draft of rs 20000 or more can be issued only with a/c payee crossing

➢ Difference between cheque and demand draft

Cheque	Draft
It is issued by an individual	It is issued by a banker
It is drawn by an account holder of a bank	It is drawn by one branch of bank on another Branch of the same bank
In a cheque drawer and drawee are different Persons	In a draft both the drawer and drawee are the Same bank
It is defined in the negotiable instrument act	It has not precisely defined in negotiable Instrument act
Payment of cheque can stopped by the Drawer	The payment of draft cannot be stopped
Here payment is made after presenting Cheque to bank,	Dd is given after making payment to bank
It is not backed by a bank guarantee	Dd are backed by bank guarantees and are, Therefore more secure
It can be made payable either to bearer or Order	It is always payable to order of a certain Person
It can be dishonoured for want of sufficient Balance in account	Draft cannot be dishonoured

Endorsement

- It means signing on the back of a negotiable instrument for the purpose of negotiation.
- section 15 of the negotiable instrument act 1881 defines endorsement as follows; *"where the maker or holder of a negotiable instrument signs the same, otherwise than as such maker, for the purpose of negotiation, on the back or face thereof, or on a slip of paper annexed thereto or signs for the same purpose a stamp paper intended to be completed as a negotiable instrument, he is said to endorse the same, and is called the endorser"*
- Endorsement is the act of signing a negotiable instrument by the maker or endorser for the purpose of negotiation.
- The person who signs the instrument for the purpose of negotiation is called endorser
- The person to whom instrument is endorser is called endorsee.
- The endorser may sign either on the face or on the back of the negotiable instrument. Generally it is made on the back

➢ Allonge

- If the entire space on the back of a negotiable instrument is covered with endorsement, a piece of paper is safely attached to the instrument for the purpose of endorsement. All subsequent endorsement is made on this piece of paper
- The paper attached with a negotiable instrument for the purpose of making further endorsement is called "allonge"

➢ Effects of allonge

- After endorsement, the endorsee gets the right, title or property in the instrument
- He also gets the right of further negotiation
- The endorsee acquires the right of the instrument as its holder
- The endorser certifies the genuineness of the instrument
- The endorser, by his act of endorsing, promises to indemnify the endorsee or any subsequent holder for any loss suffered by them on the dishonour of the instrument
- The endorser guarantees to the endorsee that he had a good title to the instrument.

➢ General rules regarding endorsement

- Signature of the endorser

  The endorser or any other person who are authorised to endorse has to sign the instrument to form a valid endorsement.

- Spelling

  The endorser should spell his name in the same way as it appears on the instrument as payee or endorsee

Example: if the payees name is wrongly spelt as sitara instead of sithara, regular endorsement is as follows;

Sd/ sitara

sithara

- No addition or omission of the initial of the name

An initial cannot be added or omitted from the name of the payee or endorsee as given in the cheque

Example: a cheque payable to k.p sahadevan cannot be endorsed as k. Sahadevan

- Prefixes and suffixes should be avoided

The prefixes and suffixes to the name of the payee or endorsee should be excluded in the endorsement

Example: a cheque payable to dr. P.t. Sebastian may be endorsed as p.t. Sebastian, m.d

- Endorsement by women

In the case of spinster, the correct endorsement consists of her first name and surname. That is her endorsement is her maiden name followed by her father"s name

In the case of married women, she should endorse it in her name plus the name of her husband

- Endorsement by illiterate person

If the payee of negotiable instrument is an illiterate person, he may endorse the instrument by affixing his thumb impression thereon, it should be witnessed or attested by somebody who should give his full address. The proper endorsement is

Thumb impression muneer

Attested by

Sd/ abdul salam, advocate

court road, kozhikode.

- Endorsement by firms

In case of partnership firm, the name of the firm must be signed by a person (partner, manager etc.) Who is duly authorised to sign on behalf of the partnership firm. The name of the firm must be mentioned in full. Company may be endorsed in any one of the following ways

1. „pay to bright company"

For sai trading company
saikumar (partner or manager)

2. „ pay to krishna traders"
per pro sai trading company
sai govind

- Endorsement by companies and other institutions

In the case of joint stock companies and other institutions endorsement should be made by person who is authorised to sign on behalf of the company.

Example: 1. A cheque payable to global trading limited is endorsed as follows;
for global trading limited
Rajeev
(director, manager, secretary or accountant)
2. A cheque payable to jawahar college is endorsed as follows;
for jawahar college
Principal

- Endorsement by agent

A person may authorise his agent to endorse the cheques on his behalf. Endorsement in such a case should be as follows;

For (or on behalf of or per pro) m. Sreenivasan
K.s ranjith (agent)

- Endorsement by liquidators

If a company is liquidated and an official receiver is appointed. A cheque payable to him can be endorsed as follows;

For ajith minerals ltd. In liquidation
p.mohandas (liquidator)

- Endorsement by trustees and executors

If a cheque is payable to trustees or executors, it should be endorsed by all of them.

P.kuruvila
R. Laxmanan
(trustees of late joseph mathew)

➢ Kinds of endorsement

3. Blank endorsement
4. Special endorsement

5. Restrictive endorsement
6. Conditional or qualified endorsement
7. Sans resource endorsement
8. Sans frais endorsement
9. facultative endorsement

- Liability of endorser
  - By endorsing an instrument, the endorser impliedly promises that on due presentation, the instrument will be accepted and paid
  - In case of dishonour of bill, the endorser will compensate the holder, provided the notice of dishonour is to be given
  - He will not deny to a holder in due course, the genuineness or regularity of a drawers signature and endorsement
  - The endorser will not deny the validity of endorsement and his title to the instrument to any subsequent endorsee
  - Where there are two or more endorsement on an instrument, the liability of the endorser will be fixed in the order in which their signature appear on the instrument
  - The liability of the endorser continues even alter the death till the instrument is paid.
  - The liability of endorser can be excluded by a spate contract to the contrary
  - When the instrument is paid in due course, the endorser is relieved from his liability
  - The " endorser can get rid of his liability by making such endorsements like "sans recourse
- Regularity of endorsement

1. Payee or endorsee of a bill himself or his duly authorised agent must sign the endorsement
2. If a cheque is payable to two persons, both of them must endorse in their own handwriting
3. The endorser should not sign in capital letter, otherwise it will be treated as irregular
4. Spelling of the name of endorsee must be the same as appearing in the instrument.
5. Initials of the name of payee or holder should not be changed in the endorsement. All the prefixes and suffixes should be dropped while endorsing an instrument
6. Endorsement in pencil or by rubber stamp are usually not accepted
7. In the case of a married women, she should endorse the instrument by her name plus the name of her husband
8. In the case of spinster, the correct endorsement consists of her first name and surname
9. An illiterate person can endorse an instrument by putting his left hand thumb impression
10. A cheque in the name of a deceased person must be endorsed by his legal representative

11. Endorsements in the case of firms can be either in the name itself or it may be authorised by an agent or by legally authorized person on behalf of the firm
12. A cheque payable to executors and administrators may be endorsed by all of them or any one of them acting for all.

Marking of cheques

- It is a sort certification given to the cheque by the paying banker.
- Marking is done by the drawee bank by stamping across the cheque "good for payment" by marking the drawee bank under takes the obligation to pay the cheque.
- It gives an additional guarantee to the cheque.
- The drawee bank may certify a cheque when there is sufficient balance in the account of the drawer
- Marking of cheques can be done at the following instances
    1. Marking at the request of the drawer
    2. Marking at the request of the payee or any holder
    3. Marking at the request of another banker
- The certifying bank can cancel the marking of cheque at any time, before the cheque is delivered by the drawer to the payee

Electronic payments

- It is a subset of an e-commerce transaction to include electronic payment for buying and selling goods or services offered through the internet
- These are payments that are made directly to payee from our bank accounts using security features over the internet to process the transactions
- Electronic payment is a financial exchange that takes place online between buyers and sellers
- The content of this exchange is usually some form of digital financial instrument that is backed by a bank or an intermediary, or by a legal tender
- The various factors that have lead the financial institutions to make use of electronic payments are;
    1. Decreasing technology cost
    2. Reduced operational and processing cost
    3. Increasing online commerce

- Parties of e- payments
  - It involve a payer and payee. A payer (buyer, customer), is an entity who makes a payment. A payee (seller, merchant), is an entity who receives a payment. The process is also involves a financial institution (bank or mint)
  - typically, financial institution participates in payment protocols in two roles; as an issuer (interacting with the payer) and as an acquirer (interacting with the payee).
  - The issuer is responsible for validating the payer during account registrations and holds the payer‟s account and assets. The acquirer holds the payee‟s accounts and assets.
  - The payee deposits the payments received during a transaction with the acquirer. The acquirer and the issuer then proceed to perform an inter-banking transaction for clearance of funds. It is possible for the issuer and the acquirer to be from the same financial institution.
  - Other parties that may be present in a payment protocol include a trustee (arbiter) who is an entity that is independent from all parties.
  - All entities in a protocol unconditionally trust the trustee who is called to adjudicate any disputes between the payer and the payee
- Characteristics of e-payments
  - There is no paper
  - Fast, safe, efficient, secure and generally less costly than paper based alternatives
  - Fully traceable
  - Most banks offer same day value for payments made to other accounts held in that same bank
  - Many banks offer same day money transfer inter- bank services for large value payments
  - Convenient
  - Help business to improve customer retention
  - Unlike cheques, electronic payments don‟t „bounce‟ –as payments will not be effected unless the funds are available in the first place
- Phases in e –payments
  1. Registration
  2. Invoicing
  3. Payment selection and processing
  4. Payment authorisation and confirmation
- Types of e-payment

- Cards
- Internet
- Mobile payments
- Financial service kiosks
- television set-top boxes and satellite receiver
- Biometric payments
- Electronic payments networks
- Person –to-person (p2p) payments.

MODULE 3

E-BANKING

E –banking

Electronic banking has many names like e banking, virtual banking, online banking, or internet banking. It is simply the use of electronic and telecommunications network for delivering various banking products and services. Through e-banking, a customer can access his account and conduct many transactions using his computer or mobile phone.

Traditional banking V/S Internet banking

Basis	**Traditional Banking**	**E- Banking**
Global Coverage	Traditional Practice provides limited coverage.	E-Banking Practices involve global coverage while sitting at home/office.
Marketing Tool	Traditional Practice does not provide proper marketing tools.	E-Banking provides the facility of marketing of products/ schemes online easily.
Prompt Services	Traditional Practices involves process which requires more time.	E-Banking same lot of line as there is no need to stand in long queues.
Reduction of errors/ Frauds	Traditional banking practices do not provide a complete check on banking transactions.	With the system of reconciliation of inter-branch transactions, frauds and errors could be reduced.
Paperwork	Bank executives have to perform a lot of paperwork which increases both time and cost.	Cost and time could be reduced or everything is to be through some interval and no need for huge paperwork.

Risk of carrying cash	In the case of traditional business, a person has to carry cash at each point of time.	E-banking provides banking without carrying cash as plastic money (ATMs, Credit cards are available)

Need and importance of E-Banking

- Reduce burden
- Need for transformation
- Ever increasing competition
- Introduction of new and more attractive customer friendly products and services
- Use of electronic means
- Influence of information technology
- Boundary less banking

Dimensions of E-banking

- Customer to bank e-banking
- Bank to bank e-banking
- Electronic central banking
- Intranet procurement

Core banking (CORE)

Core (centralized online real-time exchange) banking is a banking service that enables a group of networked bank branches to share data between bank branches quickly. This allows customers to access their bank accounts and perform basic transactions from any member branch office.

Gartner defines a core banking system as a back-end system that processes daily banking transactions, and posts updates to accounts and other financial records. In simple terms it is doing all banking operations of Branches and Head Office by connecting to a central computer kept at data centre.

Normal core banking functions will include deposit accounts, loans, mortgages and payments. Banks make these services available across multiple channels like ATMs, Internet banking, and branches.

The regular core banking functions are:

1. Deposit money in accounts

2. Offering loans or mortgages

3. Making Payments

The customers of core banking can access these services through various modes like internet banking and ATMs and also from any branch of that bank.

The core banking components include:

1. Interest calculations
2. Processing of cash deposits and withdrawals
3. Processing of incoming and outgoing remittances, cheques, etc.
4. Customer management
5. Customer account management
6. Definition of the bank's products (product management) including such things minimum balances, interest rates, number of withdrawals, etc.
7. Interest rate definition
8. Customer’s standing instructions
9. Maintaining records of all financial transactions

Advantages of Core Banking

1. It has the ability to offer developed operations to the customers.
2. Total costs can be reduced.
3. Decreased risk of multiple data entry and out-dated information
4. The possible disturbance to business because of replacing whole system is prevented

Limitations

1. It is mainly depending on technology.

2. Any failure on technical ground can halt the working with uncertainty about restoring normalcy.
3. Stoppage of work has adverse effect on bank's image and reputation.
4. If technical persons are leaving the bank, then it may pose serious problem.
5. The recurring costs are heavy.

E-Based services

1. Automated teller machines (ATM) (Any Time Money)

An ATM is a computerized Tele-communication device which provides the customers the access to financial transactions in public places without human inter-mention. It enables the customers to perform several banking operations such as withdrawals of cash, request of mini- statement etc.

Functions

The ATM facility performs the following functions to a card holder

1. A card holder is able to withdraw money from his various accounts
2. A card holder also gets latest and updated information about the cash balances in his account.
3. It also allows transferring funds between accounts. For example, a customer can transfer money from his current account to his savings bank account. 4. It is also possible to make deposits.
4. Payments of loan can be made through ATM
5. Payments of bills to utility companies such as electricity and water can be made
6. It provides the customers printed copy of transaction statements.

The advantages of ATM are:

1. ATM provides 24 hours service: ATMs provide service round the clock. The customer can withdraw cash up to a certain a limit during any time of the day or night.
2. ATM gives convenience to bank's customers: ATMs provide convenience to the customers. Now- a-days, ATMs are located at convenient places, such as at the air ports, railway stations, etc. and not necessarily at the Bank's premises.
3. ATM reduces the workload of bank's staff. ATMs reduce the work pressure on bank’s staff and avoid queues in bank premises.

4. ATM provides service without any error: ATMs provide service without error. The customer can obtain exact amount. There is no human error as far as ATMs are concerned.
5. ATM is very beneficial for travellers: ATMs are of great help to travellers. They need not carry large amount of cash with them.
6. ATM may give customers new currency notes: The customer also gets brand new currency notes from ATMs. In other words, customers do not get soiled notes from ATMs.
7. ATM provides privacy in banking transactions: Most of all, ATMs provide privacy in banking transactions of the customer.

2. Credit card

A credit card is a thin rectangular piece of plastic or metal issued by a bank or financial services company that allows cardholders to borrow funds with which to pay for goods and services with merchants that accept cards for payment.

A credit card is a financial instrument, which can be used more than once to borrow money or buy products and services on credit.it is a small plastic sheet bearing the name and number of the holder.it also contains the validity period and other important particulars. Each credit card bears the specimen signature of the holder. The name of bank, the name of branch from which the card has been issued and card number are embossed on them.

Parties to the credit card

- Card issuer
- Card holder
- Merchants or service providers

Some other terms related with credit card

Important terms connected with the credit cards are given below

1. Credit limit - This is the maximum amount of charges a cardholder may apply to the account.

2. Annual fee - This is the charge levied by a banker from a card holder annually for the use of a credit card, which ranges depending upon the type of card one possesses. Banks usually take an initial fixed amount in the first year and then a lower amount as yearly renewal fees.
3. Revolving Line Of Credit - An agreement to lend a specific amount to a borrower and to allow that amount to be borrowed again once it has been repaid is called revolving line of credit. Most credit cards offer revolving credit.
4. Personal Identification Number (PIN) - As a security measure, some cards requires a number to be punched into a keypad before a transaction can be completed. The number can usually be changed by the card holder.
5. Joint Credit - Issued to a couple based on both of their assets, incomes and credit reports. It generally results in a higher credit limit, but makes both parties responsible for repaying the debt.

3. Debit card

A debit card is a payment card that deducts money directly from a consumer's checking account to pay for a purchase. Debit cards eliminate the need to carry cash or physical checks to make purchases directly from your savings. In addition, debit cards, also called "check cards," offer the convenience of credit cards and many of the same consumer protections when issued by major payment processors such as Visa or MasterCard**.**

Debit cards are issued by banks to their customers who have maintained an account in with sufficient credit balance.

Types of debit cards

1. Direct debit card
2. Deferred debit card

Difference between Debit Card and Credit Card

Credit card	Debit card
It is a "pay later product"	It is "pay now product"
The card holder can avail of credit for 30-45 days	Customers account is debited Immediately

No sophisticated communication system is required for credit card operation	sophisticated communication network/ system is required for debit card operation (eg.ATM)
Opening bank account and maintaining required amount are not essential	Opening bank account and maintaining required amount are essential
Possibility of risk of fraud is high	Risk is minimised through using PIN

4.Smart card

Smart credit cards are the hottest new trend, which combines both computer microchip technologies and personal credit cards. A smart card, typically a type of chip card, is a plastic card that contains an embedded computer chip-either a memory or microprocessor type-that stores and transacts data. This data is usually associated with either value, information, or both and is stored and processed within the card's chip. So, a tiny microchip is actually inserted into the body of the credit card to enable the card, and the owner, greater freedom and security for purchases, both live and online.

The microchips also contain information about the card owner, as a precaution against identity, fraud/theft. Cash from a personal bank account may be transferred and stored on the smart card account for travel and purchase convenience.

5.MChq product

MChq Product is a recently introduced innovative banking product. It is nothing but a mobile-to-mobile payment option. A concept that has caught on in Japan and other Asian countries, mobile wallets allow a person to use his/her cell phone like a wallet. Now Persons can do shopping without any money or credit/debit cards but with "mobile wallet." It means that an individual can use his cell phone like a wallet. This concept is gaining momentum in countries like Japan and other Asian countries.

Advantages

Paying through the mobile is quicker and more convenient than via internet since there is no need to log onto the net and enter the personal information.

6. Society for Worldwide Interbank Financial Telecommunication (SWIFT)

SWIFT is the Society for Worldwide Interbank Financial Telecommunication, a member owned cooperative through which the financial world conducts its business operations with speed, certainty and confidence. SWIFT is used for the transmission and receipt of all international financial messages by member banks and financial institutions. As per rough estimate half of the world's transactions are made through network.

SWIFT enables its customers to automate and standardize financial transactions, thereby lowering costs, reducing operational risk and eliminating inefficiencies from their operations.
1. SWIFT does not facilitate funds transfer: rather, it sends payment orders, which must be settled by correspondent accounts that the institutions have with each other.

2. The SWIFT is a secure financial message carrier- in other words, it transports messages from one bank to its intended bank recipient.

3. Its core role is to provide a secure transmission channel so that Bank A knows that message to Bank B goes to Bank Band no one else. Bank Bin tum, knows that Bank A, and no one other than Bank A, sent, read or altered the message en route. Banks, of course, need to have checks in place before actually sending messages.

7.Shared payment network system (SPNS)

SPNS is a large network of ATMS spread in the city of Mumbai, Vashi, and Thane. It has been established at the behalf of Indian Banks Association by India Switch Company Pvt. Ltd. The participating banks issue universal cards to the customers for transacting on this network. The objective of SPRINT is to provide anytime and anywhere electronic banking service to the customers in the city of Mumbai, Vashi, and Thane through the state-of-art electronic funds transfer system to be shared by different participating banks. It offers services like cash transactions, extended hours service, across the bank payments, utility payments, check deposit, request for cheque book, point of sale facilities etc.

8.Point of sale terminal

It consists of two components-(a) A computer terminal that is linked on line to computerize customer information files in a bank and (b) a plastic magnetically encoded transaction card that identifies the customer to the computer. During a transaction, the customer's account is debited and the retailers account is credited by the computer for the amount of purchase.

9.Electronic Data Interchange(EDI)

EDI is the electronic exchange of information between two business concerns (trading partners), in a specific, predetermined format. The exchange occurs in basic units called transactions, which typically relate to standard business documents, such as healthcare claims or remittance advices.

It is the electronic exchange of business documents like purchase order, invoices, etc. in a standard, computer processable, universally accepted format between trading partners. It is also used to transmit financial transaction and payment in electronic form.

10.Indian Financial Network (INFENET)

It was introduced on 19th June 1991. It is a Very Small Aperture Terminal (VSAT) based satellite network. Currently the banks are using this network for messaging (Email) file transfer and chat services. A few banks have started using this network for critical applications like multi branch banking and some of the banks are in the process of building their own internal applications.

Automated Clearing House

The major banks in India in large metropolitan cities are using a computerize system of cheque clearing. The computerized centers where cheques are cleared are called automated clearing houses.

11.Centralised Funds Management System (CFMS)

CFMS Stands for Centralised Funds Management System. It is a sort of Electronic fund transfer system. It is a system set up, operated and maintained by Banks to enable operations on accounts maintained at various offices of the Bank, through standard message formats in a secure manner**.** It aim at inter connecting the 17 Deposit Account Departments (DADs) of RBI.

12.Electronic Fund Transfer system (EFT)

An electronic funds transfer system (EFTS) is a transfer system in which money can be transferred to business or individual accounts without requiring paper money to change hands. Electronic funds transfer systems are used for payroll payments, debit or credit transfers, mortgage payments or other payments**.**

13.National Electronic Funds Transfer (NEFT)

National Electronic Fund Transfer (NEFT) is a nation-wide payments system that allows the transfer of funds from one bank's account to another. With an increased focus on online banking, NEFT has become one of the most popular ways of transferring funds.

NEFT offers the following advantages for funds transfer or receipt:

1. Round the clock availability on all days of the year.

2. Near-real-time funds transfer to the beneficiary account and settlement in a secure manner.

3. Pan-India coverage through large network of branches of all types of banks

4. Positive confirmation to the remitter by SMS / e-mail on credit to beneficiary account.

5. Penal interest provision for delay in credit or return of transactions.

6. No levy of charges by RBI from banks.

7. No charges to savings bank account customers for online NEFT transactions.

8. Besides funds transfer, NEFT system can be used for a variety of transactions including payment of credit card dues to the card issuing banks, payment of loan EMI, inward foreign exchange remittances, etc.

9. Available for one-way funds transfers from India to Nepal.

14.Electronic Clearing Services (ECS)

ECS is an electronic mode of payment / receipt for transactions that are repetitive and periodic in nature. ECS is used by institutions for making bulk payment of amounts towards distribution of dividend, interest, salary, pension, etc., or for bulk collection of amounts towards telephone / electricity / water dues, cess / tax collections, loan instalment repayments, periodic investments in mutual funds, insurance premium etc. Essentially, ECS facilitates bulk transfer of monies from one bank account to many bank accounts or vice versa. ECS includes transactions processed under National Automated Clearing House (NACH) operated by National Payments Corporation of India (NPCI).

Credit clearing

Credit clearing is the practice according to which a small group of banks need to make many payments to each other, of adding up the payments and cancelling them out before settling the remainder.

ECS Credit offers many advantages to the beneficiary -

1. The beneficiary need not visit his / her bank for depositing the paper instruments which he would have otherwise received had he not opted for ECS Credit.

2. The beneficiary need not be apprehensive of loss / theft of physical instruments or the likelihood of fraudulent encashment thereof.

3. It is cost effective.

4. The beneficiary receives the funds right on the due date

Debit clearing

Electronic Clearing Service (Debit Clearing) Scheme or ECS (Debit Clearing) is an offline electronic funds transfer system operated by the Reserve Bank Of India and allows paperless debit transactions between banks.

The advantages of ECS Debit to customers are many and include,

1. ECS Debit mandates will take care of automatic debit to customer accounts on the due dates without customers having to visit bank branches / collection centres of utility service providers etc.

2. Customers need not keep track of due date for payments.

3. The debits to customer accounts would be monitored by the ECS Users, and the customers

Alerted accordingly.

3. It is cost effective.

15.Real Time Gross Settlement System (RTGS)

The term real-time gross settlement (RTGS) refers to a funds transfer system that allows for the instantaneous transfer of money and/or securities. RGTS is the continuous process of settling payments on an individual order basis without netting debits with credits across the books of a central bank. Once completed, real-time gross settlement payments are final and irrevocable. In most countries, the systems are managed and run by their central banks.

Benefits of RTGS

1. An RTGS electronic fund transfer facilitates fund transfer on real time basis. In case of a holiday, the amount gets credited on the next working day.

2. RTGS could also be done offline by submission of the remittance form at the bank branch of the remitter.

3. RTGS avoids the cost involved in other instruments of fund transfer such as demand draft.

4. Fund transfer through RTGS involves comparatively lower remittance charges. Inward remittances are free of cost, while banks can charge a fee not exceeding Rs 30 for an outward remittance on transaction amount of Rs 2lac-5lac. For higher amounts, banks could charge a fee of Rs 55.

5. RTGS is a safe and secure fund transfer mechanism and avoids risk of loss associated

With cheques and demand draft that are used for fund transfer.

Mobile Banking

Mobile banking is a service provided by a bank or other financial institution that allows its customers to conduct financial transactions remotely using a mobile device such as a smartphone or tablet. Unlike the related internet banking it uses software, usually called an app, provided by the financial institution for the purpose. Mobile banking is usually available on a 24-hour basis.

The following services are provided through mobile banking

- Balance enquiry
- Cost transaction
- Request for cheque book
- Bill payment

Doorstep Banking

Doorstep banking is a facility provided to you so that you don't have to visit your bank branch for your routine banking activities like cash deposit, cash withdrawal, cheque deposit or making a demand draft. The bank extends these facilities at your work place by appointing a service provider on your behalf.

E-Purse

Electronic purse (E-Purse): An electronic purse is the store of value on a card, which can be used in a manner similar to cash to pay for travel or for other small-scale transactions. The electronic "purse" is secure information stored in a dedicated area or file in the smart-card.

Personal computer banking or Home banking

PC banking is also a fast growing sector. The customer can access information on their accounts through a dial up connection with their bank. All the services which are available through telephone banking are also available in PC banking. They can also download the information and process it in their own financial management software.

Telephone Banking

Telephone banking is a service provided by a bank or other financial institution, that enables customers to perform over the telephone a range of financial transactions which do not involve cash or Financial instruments (such as cheques), without the need to visit a bank branch or ATM.

Usually the following services are offered by banks through telephone banking,

1. Information about Products and Services

2. Information about Account Balance and Transactions

3. Information about status of Cheque Issued or Deposited

4. Information about Deposit Interest Rates

5. Information about ATM and Branch locations

6. Information / Issues on usage of - ATM, Internet Banking or Mobile Banking

7. Request for Cheque Book

8. Request for Statement by E-mail or Fax

9. Request for Duplicate Statement

10. Regeneration of ATM PIN for Debit Card

11. Regeneration of Internet Banking password

12. Blocking of Internet Banking User ID

13. Hot listing of Cards

Internet banking or online banking

Online banking allows a user to conduct financial transactions via the Internet. Online banking is also known as Internet banking or web banking.

Services provided through online banking

1. Net banking makes it easy to transfer one's money from one branch in a particular city to any other branch in a city.

2. A customer can open a FD account via the net. For this purpose he wants to provide data regarding the amount and terms of the deposit and also the branch in which the account is to be opened.

3. A customer can order for an issue of a demand draft or a banker's cheque. However, the draft can be delivered only to the customer's address and not to any other third party

4. A customer can inquire on the balance in his/her savings, current and FD account and also on the tax deducted at source on FD account for the current and previous financial year.

5. A customer can give instructions over the net for stopping payment on a cheques/

6. The customer can request for a cheque book via the internet, which will take three days to come.

7. One can view all the transactions completed on an account for a specified period and get a copy via e-mail.

Necessities required for operating online banking

The following items are required by a person who wishes to operate through online banking,
1. An active bank account with balance in it for transactions,

2. Debit or a credit card number,

3. Customer's user ID,

4. Bank account number,

5. The Internet banking PIN number, and 6.A PC with access to the web.

Two types of Banks that do internet banking

- Online services
- Virtual bank

Virtual banking

A virtual bank is a bank that offers banking services through electronic channels. Clients can open an account, make deposits, taking out loans and perform other banking transactions via a mobile app or through the website of the virtual bank, thus saving time due without having the need to visit a bank.

Advantages

Virtual banking systems have numerous advantages over traditional brick-and-mortar banks.

1. Customers have access to instant service provision.

2. Transaction cost is less.

3. Account maintenance costs can be reduced.

4. There is no need of visiting a bank physically.

5. Virtual banks are safe.

6. It installs high-end firewall and data encryption software that ensure the integrity of customer data.

7. Users are assigned individual PINS (personal identification numbers) that allow them to access their online accounts.

8. Most online banks log off customers automatically after a few minutes of inactivity.

9. Virtual banks offer convenience because clients can access their accounts from anywhere and do not have to change branches if they move house.

10. They don't have to spend money on branches so the virtual banks can offer more competitive rates on credit cards, savings accounts and even mortgages.

Limitations

Virtual banking systems have some disadvantages for both the banks and customers.

1. Initial setup costs for starting a virtual banking system can be high.

2. New users may initially find banking sites difficult to navigate and use.

3. Most virtual banking systems cannot be accessed without the Internet, and users may be

Required to invest in high-speed broadband for quicker, reliable access.

4. Technological hitches can cause virtual banks to go down-an inconvenience.

5. While virtual banks give customers numerous advantages in terms of bill payments and Account information, at the end of the day, customers still need to visit ATMs to withdraw

Cash.

6. Virtual banks have very few or none of their own ATMs, which means their clients might have to pay fees to the bank whose machines they use to withdraw cash.

7. Depositing money is another problem, because a virtual bank has no offices clients can go to. This means that clients probably need another account, with a standard brick-and-mortar bank, from which they can make electronic transfers to their virtual bank account.

8. As with all technologies, online banking websites sometimes go down. If this happen when we closed our local bank or credit card accounts, we will definitely go penniless.

9. Even though online banking sites are heavily encrypted, with the developing technology. It’s hard to rule out the "hackers" who may access our bank accounts.

Advantages of E-banking

1. Internet banks generally have lower operational and transactional costs than do traditional brick-and-mortar banks. They are often able to offer low-cost checking and high-yield Certificates of deposit. Banks charge very little for internet banking. Their services may even be free.

2.Online banking is convenient, It allows the customer to perform transactions, pay bills and check balances 24 hours a day, 7 days a week. It facilitates better customer retention 3.Internet banking is not limited to a physical site: some Internet banks exist without physical branches, for example, Telebank (Arlington, Virginia) and Banknet (UK).

4. Further, in some cases, web banks are not restricted to conducting transactions within national borders and have the ability to make transactions involving large amounts of assets instantaneously

5. Internet banking is a safe and convenient way to handle our money.

6. It offers convenience to customers as they are not required to go to the bank's premises.

7. There is very low incidence of errors.

8. The customer can obtain funds at any time from ATM machines.

9. The credit cards and debit cards enables the Customers to obtain discounts from retail outlets.

10. The customer can easily transfer the funds from one place to another place electronically.
11. Online banking is fast, efficient and effective. E-banking opens new vistas for providing efficient, economic and quality service to the customers. E-banking allows the possibility of improved quality and an enlarged range of services being made available to customers.

12. The increased speed of response to customer requirements under E-banking vis-a-vis branch banking can enhance customer satisfaction and, consequently can lead to higher

profits via handling a larger number of customer accounts. Banks can also offer many cash management products for the existing customers without any additional cost.

Disadvantages of Internet Banking or E- banking

1. Understanding the usage of internet banking might be difficult for a beginner at the first go. Though there are some sites which offer a demo on how to access online accounts but not all banks offer this facility So, a person who in new might face some difficulty.

2. Many banks have expressed their concern about the huge initial start-up cost for venturing into E-banking

3.A customer cannot access to online banking if he/she don't have an interrupt connection, thus without the availability of internet access, it may not be useful.

4. Security of transactions is a big issue. There is a chance of hacking account information by unauthorized people over the internet.

5. Password security is a must. After receiving password, the customer is required to change it and memorize it. Otherwise the account may be misused by someone who gets to know your password inadvertently.

6. A customer cannot use it, in case; the bank's server is down.

7. Legal framework for recognizing the validity of banking transactions conducted through the 'Net' is still being put in place. Though initial legal framework has been devised for E-banking activities, it is uncertain as to what possible legal issues may pop up in future as banking on Internet progresses.

8. Another issue is that sometimes it becomes difficult to note whether transaction was successful or not. It may be due to the loss of net connectivity in between, or due to a slow connection, or the bank's server is down.

9. The introduction of E-banking involves 24 hours support environment, quality service to end users and other partners which would necessitate a well-qualified and robust group of skilled people to meet external and internal commitments. Hence the bank has to spend a lot on training. What is more important is their retention in the organization after necessary training.

Financial inclusion

Financial inclusion is a method of offering banking and financial services to individuals.it aims to include everybody in society by giving them basic financial services regardless of their income or savings.

Financial inclusion may be defined as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost.

Objectives of financial inclusion

1. To increase awareness about the benefits of financial services among the economically underprivileged sections of the society.

2. To improve financial literacy and financial awareness in the nation.

3. It aims to bring in digital financial solutions for the economically underprivileged people of the nation.

4. To bring in mobile banking or financial services in order to reach the poorest people living in extremely remote areas of the country.

5. To empower women belonging to low-income groups by increasing financial awareness among them.

6. To encourage banks and other financial institutions to assist the unbanked sections of the society.

7. To provide micro insurance (life) and non-micro insurance life and non-life).

8. The process of financial inclusion works towards creating financial products that are suitable for the less fortunate people of the society.

9. To establish proper financial institutions to cater to the needs of the poor people.

10 To provide simple credit products and overdrafts linked with no-frills accounts.

Recent initiatives in financial inclusion

- No – frills Account(NFAs)
- Kisan Credit Cards(KCCs)
- General Purpose Credit Cards(GCC)
- Saving account with overdraft facility

Social security schemes

- Pradhan Mantri Jan Dhan Yojana(PMJDY)
- Pradhan Mantri Mudra Yojana(PMMY)
- Pradhan Mantri Suraksha Bima Yojana(PMSBY)
- Pradhan Mantri Jeevan Jyoti Bima Yojana(PMJJBY)
- Stand Up India Scheme
- The Atal Pension Yojana

MODULE 4
INSURANCE

Insurance is a contract between two parties where by one party agrees to undertake the risk of another in exchange for consideration known as premium and promises to pay a fixed sum of money to the other party on happening of an uncertain event/death or after the expiry of a certain period in case of life insurance or to indemnify the other party on happening of an uncertain event in case of general insurance.

In the words of John Megi "insurance is a plan where in persons collectively share the losses of risk".

According to Mc Gill, "Insurance is a process in which uncertainties are made certain".

Insurance in its current form has its history dating back until 1818, when Oriental Life Insurance Company [3] was started by Anita Bhavsar in Kolkata to cater to the needs of European community.

The pre-independence era in India saw discrimination between the lives of foreigners (English) and Indians with higher premiums being charged for the latter.

In 1870, Bombay Mutual Life Assurance Society became the first Indian insurer

Parties of insurance

- Insured
- Insurer
- Insurance policy
- Premium
- Indemnity

- Beneficiary

Insured

The party or the individual who seeks protection against a specified task and entitled to receive payment from the insurer in the event of happening of stated event is known as insured. An insured is normally in insurance policy holder.

Insurer

The party who promises to pay indemnity the insured on the happening of contingency is known as insurer. The insurer is an insurance company.

Beneficiaries

The person or the party to whom the policy proceeds will be paid in the event of the death or happening of any contingency is called beneficiary.

Contract

An agreement binding at law between two or more parties is called contract.

Premium

The amount which is paid to the insurer by the insured in consideration to insurance contract is known as premium. It may be paid on monthly, quarterly, half yearly, yearly or as agreed upon it is the price for an insurance policy.

Features of insurance

- Contract
- Consideration
- Cooperative endeavor
- Protection of monetary risks
- Good faith
- Contract of indemnity

Functions of insurance

- **Primary functions**
  - Providing protection
  - Collective risk bearing
  - Evaluating risks
  - Provide certainty
- **Secondary functions of insurance**
  - Preventing losses
  - Covering larger risk with small capital
  - Helps in the development of larger industries
  - Provides capital
- **Other functions of insurance**
  - It is a savings and investment tool
  - Medium of earning foreign exchange
  - Risk free trade

Purpose and need for insurance

- Spread the cost of losses
- Reduces the need for individual Insurance funds
- Provides investment capital for governments and industry
- Encourages loss prevention activities

Role of insurance in financial framework

- Investment for economic development
- Providing capital to infrastructure and other long term investment
- Benefit of Insurance to business and trade

- Companies are protected from the consequences of the loss
- Encourages the businessman to invest freely in business enterprises
- Routes for long term wealth creation
- Insurances services a number of valuable economic functions
- Insurance contributes positively to economic growth
- Strong complementarily between insurance and banking

Elements of general contract

- Insurance enables risk averse individuals and entrepreneurs to undertake higher risk
- Offer and acceptance
- Legal relationship
- Consensus ad idem
- Competency of parties
- Free consent
- Lawful consideration
- Legal objective

Basic principles of insurance

Insurable interest

Contract of insurance means that the insured must have an actual precautionary interest and not a mere anxiety or sentimental interest in the subject matter of the insurance. The insured has an insurable interest in the object or in the life of the insured person. A person is said to have an insurable interest in the property, if he is financially benefited by its existence and is biased the by its loss, destruction or nonexistence. No person can enter into a valid contract unless he has insurable interest in the subject matter of insurance.

Principle of utmost good faith

The contracts of insurance are contracts of Ubereimae fidei. It is essential that there must be utmost good faith and mutual confidence between the insured and the insurer. In a contract of insurance, the insured knows more about the subject matter of the contract than the insurer. So his duty is to disclose accurately all material facts and nothing should be withheld or concealed. However the following facts are not required to be disclosed by the insured: -

- Facts that may tend to reduce the risk
- Facts which the insurer knows already
- Facts of public knowledge
- Facts waived by the insurer
- Facts governed by the conditions of the policy
- Facts which could have been secondary from the information supplied by the insured.

Principles of indemnity

A contract of insurance is contained in a fire, marine, burglary or any other policy (except life assurance and personal accident and sickness) is a contract of indemnity. Here the insured in case of loss against which the policy has been issued shall be paid the actual amount of loss not exceeding the amount of the policy. The maximum amount of compensation does not exceed the amount of actual loss or the value of the policy whichever is less. The object of every contract of insurance is to place the insured in the same financial position as nearly as possible after the loss as if the loss had not taken place at all. It would be against public policy to allow an insured to make a profit out of his loss or damage. The principle of indemnity does not apply to life insurance and other personal accident insurance because loss of one individual life cannot be measured in terms of money.

Features of the principle of indemnity

- All contracts of insurance except the life insurance, personal accident insurance are contract of indemnity.
- The amount of indemnity should not exceed the amount of actual loss or the value of the policy whichever is lower
- The marine insurance is not a pure indemnity contract

- The doctrine of subrogation is applied after the settlement of the claims Valued policies accepted marine insurance are not covered under the scope of the principle of indemnity.

Conditions

- It is the duty of the insured to prove that he will suffer loss on the insured subject matter at the time of happening of event and the loss is actual monetary loss.
- Indemnification should do not be more than the amount insured.
- If the insured get more amount than the amount insured, then the insurer has the right to get back the excess amount paid.
- If the insured get an amount from third party after receiving the full amount of indemnity, then the insurer have the right to receive full amount paid by the third party.
- The principle of insurance is not applied in the case of personal and life insurance because the amount of loss cannot be calculated easily.

Method of indemnity

- Cash payment
- Repair
- Reinstatement
- Replacement

Principle of subrogation

“The doctrine of subrogation is corollary to the principle of indemnity and applies only to fire and marine insurance. It is also known as "doctrine of rights substitution". According to it, when an insured has received full indemnity in respect of his loss, all rights and remedies which he has against third person will pass on to the insurer and will be exercised for his benefit until insurer recoups the amount he has paid under the policy. It must be clarified here that the insurer's right of subrogation arises only when he has paid for the loss for which he is liable under the policy and this right extend only to the rights and remedies available to the insured in respect of the things to which the contract of insurance relates

Features of subrogation

- It is an extension of the principle of indemnity
- It is applicable to all contracts of indemnity
- It arises only after the payment of the claim by the insurer to the insured.
- The rights of subrogation may arise even before indemnification of the insured except in the case of marine insurance.
- Here the insurer has the right to sue against third party
- If the insured get any money as compensation after indemnification, the insured can hold that amount of compensation as a trustee for the insurer.
- Here insurer cannot recover anything more than the amount of indemnification paid to the insured.

Principle of Causa Proxima

The term Causa Proxima means nearest or proximate or immediate cause. It means that the cause of the loss must be proximate or immediate and not remote. If the real cause of the loss is insured, the insurer is liable to pay compensation. Otherwise the insurer is not liable to pay compensation. Proximate cause means the active, efficient cause that sets in a motion of events which bring about a result

Principle of Mitigation of loss

The insured must take all necessary steps to mitigate or minimize the loss just as any prudent person would do in those circumstances. If he does not do so, the insurer can avoid the payment of loss attributable to his negligence. But it must be remembered that through the insured is bound to do his best for his insurer, he is not bound to do so at the risk of his life.

Mitigation of loss means to minimize or reduce the severity of loss.

Principle of contribution

It is an outcome of the principle of indemnity. Where there are two or more insurance on one risk, the principle of contribution comes into play. The aim of contribution is to distribute the actual amount of loss among the different insurers who are liable for the same risk under different policies in respect of the same subject matter. Any one insurer may pay to the insured the full amount of the loss covered by the policy and then become entitled to contribution from his co-insurers in proportion to the amount which each has undertaken to pay in the loss of same subject matter.

Warranty

A warranty in a contract of marine insurance is substantially the same as a condition in a contract of sale of goods. These are the conditions and promises in the insurance contract. It gives the aggrieved party the right to avoid the contract. Warranty is an important condition in the insurance contract which is to be fulfilled by the insured. There are two types of warranties. Expressed warranties and implied warranties.

Express warranties

An express warranty is one which is expressly stated in the policy of insurance it must be included in or written upon the policy. There is no limit to the number of express warranties.

Implied warranties

Included in the policy by law, custom or general agreement. These warranties are:

Implied warranties or conditions not incorporated in a policy but assumed to have been

- Seaworthines
- Legality of voyage
- Non deviation

Reinsurance

In order to safeguard his own interest, he may insure the same risk, either wholly or partially with other insurers, thereby spreading the risk. This is called reinsurance. Re-insurance can be resorted to in all kinds of insurance and a contract of re-insurance isa also a contract of Indemnity

Double insurance

When the insured insures the same risk with the two or more independent insurers and the total sum insured exceeds the value of the subject matter the insured is said to be over insured by double Insurance. Both double Insurance and over insurance are perfectly lawful unless the policy otherwise provides

Auto Insurance

Auto insurance is designed to help to pay for repairs or replacement in the event of an accident. It may also cover medical cost for a driver or passengers or even those for individuals in other vehicle if the insured is deemed to be default. It also covers a vehicle in the event of theft or other forms of damage depending on the chosen policy

Disability insurance

It may protect the insured from financial ruin if he is injured or disabled and can no longer work. This type of insurance is made to help with the monthly living expenses and health care expenses not covered by a health insurance policy.

Homeowner's insurance

It helps to cover losses of a home or property due to fire, natural disaster, faulty electrical work, bad plumbing and more. If the insured have a mortgage he will most likely to be required to carry some form of homeowner's insurance.

Motor vehicle insurance

Long- Term Care Insurance

It is designed for those diagnosed with chronic illness and the elderly. It may help to provide for nursing home or at home health care.

It refers to contracts of insurance other than these of life, fire and marine insurance.

Miscellaneous or Liability insurance

- Personal accident insurance
- Property insurance
- Liability insurance
    - Public liability insurance
    - Professional negligence insurance
    - Compulsory insurance
    - Employer's liability insurance
    - Guarantee insurance

Kinds of insurance

- Life insurance
- Fire insurance
- Medical insurance

- General insurance

Kinds of marine policies

- Marine insurance
    - Voyage policy
    - Time policy
    - Mixed policy
    - Valued policy
    - Open or unvalued policy
    - Floating policy

MODULE 5

INSURANCE LAWS

Meaning and definition of insurance

Insurance is a legal agreement between two parties i.e. the insurance company (insurer) and the individual (insured). In this, the insurance company promises to make good the losses of the insured on happening of the insured contingency. ... The insured pays a premium in return for the promise made by the insurer.

Life Insurance

As the name suggests, life insurance is insurance on your life. You buy life insurance to make sure your dependents are financially secured in the event of your untimely demise. Life insurance is particularly important if you are the sole breadwinner for your family or if your family is heavily reliant on your income. Under life insurance, the policyholder's family is financially compensated in case the policyholder expires during the term of the policy.

Features of life insurance

1. Life insurance is an outcome of offer and acceptance. The offer is made by the insured and acceptance is done by the insurer.

2. The insurance company agrees to pay a certain sum of money either on the death of the insured or on the maturity of the policy whichever is earlier.

3. The insured has an obligation to pay an amount periodically up to the date of death or expiry of the period of the policy whichever is earlier

4. Life insurance is not a contract of indemnity. We cannot calculate the value of life in terms of money

5. Insurable interest must be present at the time of taking policy and which may or may not be present at the time of death of the insured.

6. It is considered as the best alternative way of savings

Importance of life insurance

- Protection against untimely death
- Saving for old age
- Promotion of savings
- Initiates investments
- Credit worthiness
- Social security
- Tax benefit

Law relating to life insurance

- Insurance act 1938
- Life insurance corporation act 1956
- Insurance regulatory and development authority act,1999

General principles of life insurance contract

- Offer and acceptance
- Legal relationship
- Consensus ad idem
- Competency of parties
- Free consent
- Lawful consideration
- Legal object

Basic principles of life insurance contract

- Principle of utmost good faith
- Principle of insurable interest

Determinants of insurable interest

- Blood or marriage

  Insurable interest

  - Husband and wives
  - Parents and children(adopted children also)

- Grandparents and grand children
- Brothers and sister
- Engaged couples(some states)

No insurable interest

- Other relatives by marriage
- Nieces and nephews
- Cousins
- Uncles and aunts
- Stepchildren and stepparents

- Business relationship
- Creditors

Proposal and policy

Proposal form is the most important and basic document required for life insurance contract between the insured and insurance company. ... A proposal form seeks basic information of the proposer and the life assured. This includes the name, age, address, education and employment details of the proposer.

In insurance, the **insurance policy** is a contract (generally a standard form contract) between the insurer and the policyholder, which determines the claims which the insurer is legally required to pay.

Nomination

A person who receives the benefit in case of death of the insured person is a nominee. Description: The insured person chooses or nominates his/her nominee at the time of buying the life insurance policy. Nominee is usually the spouse, children or parents.

Assignment

Interest in a life insurance policy can be transferred from the policyholder to a lender or relative by assignment of policy. Here the policyholder is known as the assignor and the person in whose favour the policy has been assigned is called assignee. Types of assignment are

Conditional assignment: This is done when the insured wishes to pass benefits of the policy to a relative in case of early death or certain conditions. The rights of the policyholder are restored once the conditions are fulfilled.

Absolute assignment: This is done as a part of consideration for a loan in favour of the lender/bank/lending institution. In such an assignment, the insured loses his rights in the policy and the absolute assignee can deal with it.

Title and claims

An insurance claim is a formal request to an insurance company asking for a payment based on the terms of the insurance policy. The insurance company reviews the claim for its validity and then pays out to the insured or requesting party (on behalf of the insured) once approved.

General insurance

Insurance contracts that do not come under the ambit of life insurance are called general insurance. The different forms of general insurance are fire, marine, motor, accident and other miscellaneous non-life insurance. Like life insurance, general insurance products come at a price in the form of premium.

Different types of general insurance

- Property insurance
- Liability insurance
- Other forms of insurance

Property insurance

Property insurance is a broad term for a series of policies that provide either property protection coverage or liability coverage for property owners. ... Property insurance can include a number of policies, such as homeowners insurance, renters insurance, flood insurance, and earthquake insurance.

- Marine insurance
- Fire insurance
- Miscellaneous insurance

Liability insurance

Liability insurance policies cover the insured against any claims due to causing bodily injuries and damages to the property of unknown people. Besides covering the legal costs involved, liability insurance provides coverage for payouts which the insured is legally liable to pay.

Other forms of insurance

Marine insurance

Marine Insurance is a type of insurance policy that provides coverage against any damage/loss caused to cargo vessels, ships, terminals, etc. in which the goods are transported from one point of origin to another.

Subject matter of marine insurance

- Marine hull insurance
- Marine cargo insurance
- Freight insurance

Features of marine insurance

1.In this type of insurance cargo, ship and fright is to be insured.

2.There is a contract between insurer and insured.

3.The insured is liable to pay a certain amount to the insurer as premium for the insurance

4. Insurance can be taken for a single journey or number of journeys during a period of time.

5. The insurer guarantees to indemnity the loss incurred by the insured from sea perils. 6.Marine insurance can be taken against losses incurred in inland also.

7.1t also includes third party insurance.

Fire insurance

Fire insurance is a legal contract between an insurance company and the policyholder which guarantees that any loss or damages caused to the policyholder's property in a fire will be paid by the insurance company. Fire insurance provides coverage against incidents of accidental fire, lightning, explosion, etc

Features of fire insurance

1 .Fire insurance contract is a contract of indemnity. The insured cannot claim anything more than the value of the goods or properties lost or damaged by fire or the amount of policy whichever is less.

2. It should fulfil all essentialities required for a valid contract.

3. It is a contract of utmost good faith in which the insurer and the insured must disclose all material facts related with the subject matter of the insurance.

4. Fire insurance policy is issued for a lawful consideration

5. A fire policy is taken generally for one year and it can be renewed according to the terms of the policy

6. In fire insurance the insured must have insurable interest in the goods or properties insured against fire, both at the time of taking the policy and also at the time of incurring loss and the claim is filed for compensation.

7. Fire policies cover loss against fire.

8. We can assign the fire policy with the prior permission of the insurer

9. The scrap left after the fire, automatically passed in the hands of the insurer after the payment of insurance claim.

10. The cause of the fire is immaterial for admitting the fire insurance claim. At the same time if the fire is caused due to fraud or misconduct on the part of the insured, the loss will rot be indemnified

11. On occurrence of fire, the insurer should be intimated immediately so that he could protect the remainder of the property and can also determine the amount of loss,

12. The claim may be settled in cash or the goods or properties damaged are reinstated.

Laws relating to general insurance

- Insurance act 1938
- Indian marine insurance act 1963
- General insurance business (nationalization)act ,1972
- General insurance business (nationalization)act 2002
- Insurance regulatory and development authority act 1999

Powers, functions and duties of IRDA

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

1. Registering and regulating insurance companies

2. Protecting policyholder's interests

3. Licensing and establishing norms for insurance intermediaries

4. Promoting professional organizations in insurance

5. Regulating and overseeing premium rates and terms of non-life insurance covers

6. Specifying financial reporting norms of insurance companies

7 Regulating investment of policyholders' funds by insurance companies

8. Ensuring the maintenance of solvency margin by insurance companies

9. Ensuring insurance coverage in rural areas and of vulnerable sections of society

Role of the Insurance Regulatory and Development Authority (IRDAI)

1.IRDAI provides a certificate of registration to a life insurance company.

2.IRDAI is responsible for the renewal, modification, withdrawal, suspension or cancellation of this certificate of registration

3.IRDAI frames regulations on protection of policyholders' interests.

4.It offers policyholders the right to voice their complaints against insurers or insurance companies.

5. The IRDAI has set up the grievance redressal cell to take up the complaints of the policyholder

6. It specifies the requisite qualifications, code of conduct and practical training for intermediaries or insurance intermediaries and agents,

7. It specifies the code of conduct for surveyors and loss assessors wilt promotes efficiency in the conduct of insurance businesses

8. It promotes and regulates activities of professional organizations connected with life Insurance

10. It levies fees and other charges to carry out the purposes of the IRDAI Act;

11.It can call for information from undertake the inspection of conduct enquiries and investigations including the auditing of insurers, intermediaries, insurance intermediaries and other organizations connected with the business of life insurance

12. It specifies the form and manner in which books of account should be maintained and statements of accounts should be rendered by insurers and other insurance intermediaries

13. It regulates the investment of funds by insurance companies

14. It regulates the maintenance of margins of solvency.

15. It adjudicates disputes between insurers and intermediaries or insurance intermediaries;

16. It specifies the percentage of premium income of the insurer to finance schemes for the promotion and regulation of certain specified professional organizations

17. It specifies the percentage of life insurance business to be undertaken by an insurer in the rural or social sector, and

18. It exercises any other powers as may be prescribed