

Banking & Insurance

Study Material

Standard IX

Student Handbook

CONTENT DEVELOPED BY

BSE INSTITUTE LTD. MUMBAI

EDITING & COORDINATION

Dr. Biswajit Saha, Additional Director (VOC), CBSE

Ms. Anupama Khaitan, Content Team, BSE Institute Ltd.

Table of Contents

UNIT 1- INTRODUCTION TO BANKING

- 1.1. Definition of Banking
- 1.2. Definition of Customer
- 1.3. Classification of Banks
- 1.4. Functions of a Bank

Banks' functions can be segregated into Primary and Secondary functions as follows:

- 1.5. Relationship between Banker and Customer
- 1.6. Summary:
- 1.7. Practice Questions

UNIT 2- DEPOSIT ACCOUNTS

- 2.1. Demand Deposits
- 2.2. Term Deposits:
- 2.3. Other Deposit Scheme
- 2.4. Types of Account Holders
- 2.5. Opening of Accounts
- 2.6. Cash Book, Pass Book & Bank Reconciliation Statement
- 2.7. Summary:
- 2.8. Practice Questions

UNIT 3- UTILITY SERVICE OF BANKING

- 3.1. Credit Cards & Debit Cards
- 3.2. Automated Teller Machines (ATMS)
- 3.3. Core Banking
- 3.4. Standing Instructions
- 3.5. Summary:
- 3.6. Practice Questions

UNIT 4 - INTRODUCTION TO INSURANCE

- 4.1. Risk
- 4.2. Financial Implications of Risk

- 4.3. Insurance --- Mechanism of Covering Risk
- 1.4. Functions of Insurance
- 4.5. Benefits of Insurance
- 4.6. Insurance Policy
- 4.7. Life vs General Insurance
- 4.8. Summary
- 4.9. Practice Questions

UNIT 5 -INSURANCE ORGANIZATION

- 5.1. Brief history of Insurance in India
- 5.2. Regulatory Authority for Insurance Sector
- 5.3. Private Investment in Insurance Sector
- 5.4. Structure of Insurance Business in India
- 5.5. Summary
- 5.6. Practice Questions

Learning Objective – Unit 1

Location	Duration-20 HOURS			
Classroom Or Banks	SESSION -1 DEFINITION OF BANKING			
	Learning Outcome	Knowledge Evaluation	Performance Evaluation	Teaching and Training Method
	To understand the core banking concept	<ol style="list-style-type: none"> Understanding the role of organized sector (Banks), unorganized sector (money lender) Definition of banking as per Section 5(b) Feature and importance of banking 	<ol style="list-style-type: none"> Difference between organized sector (Banks), unorganized sector (money lender) Define Banking Explain the importance of banking Elucidate the features of banking 	<p>Interactive lecture on role of banking sector in modern era, its importance and definition.</p> <p>Activity – Visit to a bank for a general overview.</p>
	SESSION -2 DEFINITION OF CUSTOMER			
	To understand the concept of customer	<ol style="list-style-type: none"> Definition of customer Requisites for being the customer 	<ol style="list-style-type: none"> Explain the meaning of a customer Identify the various types of customer 	<p>Interactive lectures the role of customer in banking.</p> <p>Activity- Interview customers of different banks to see their satisfaction level and make them fill the questionnaire</p>
	SESSION-3 TYPES OF BANKS			
	To enlist the various types of Banks in India	<ol style="list-style-type: none"> RBI- The Apex Institution Understanding the rationale of different banks <ul style="list-style-type: none"> Commercial Banks Public Sector Banks Private Sector Banks Foreign Banks Rural Banks Industrial Banks Cooperative Banks Examples of various banks under each category 	<ol style="list-style-type: none"> Enumerate the functions of RBI Features of various types of Banks Names (examples) of various banks according to their category. 	<p>Interactive lecture on the Indian Banking system with examples</p> <p>Activity – To Prepare a chart showing the types of Banks in India.</p>
	SESSION-4 FUNCTION OF A BANK			
To identify the functions performed by	<ol style="list-style-type: none"> Primary(main) functions Agency function 	<ol style="list-style-type: none"> Classify the major functions of a bank 	<p>Interactive lecture- Discuss about various functions</p>	

Location	Duration-20 HOURS			
	the banks	3. General utility function	2. Enlist the general utility services provided by banks 3. List the agency function 4. Point out the primary functions of a bank	performed by banks through examples Activity – Visit a bank in your vicinity and prepare a report on various utility function provided by the banks.
SESSION-5 RELATIONSHIP BETWEEN BANKER AND CUSTOMER				
	To Examine the kind of relationship this exists between bank and customer.	1. Relation as debtor and creditor 2. Banker as Trustee 3. Banker as Agent	1. Examine the debtor and creditor relationship between banker and customer 2. How is such relationship different from other commercial relationship? 3. Explain the concept of banker acting as a trustee and an agent.	Interactive lecture on relationship of bank and customer Activity- Role plays depicting conversation between banker and its customers to open a new account and the facilities provided by the bank.

UNIT 1

INTRODUCTION TO BANKING

OBJECTIVES

After reading this unit, you will be able to:

- Understand what is Bank and its role in the economy
- Be able to explain who is a customer and Banks duties to his customers
- Explain the Banking structure in India & role of various Banks
- Describe the functions of a Bank
- List the various relation types of Banks have with its customers

STRUCTURE

- 1.1. Definition of Banking
- 1.2. Definition of Customer
- 1.3. Types of Banks
- 1.4. Functions of a Bank
- 1.5. Relationship between Banker and Customer
- 1.6. Summary
- 1.7. Practice Questions

1.1. Definition of Banking

Finance is the life blood of trade, commerce and industry. Now-a-days, banking sector acts as the backbone of modern business. Development of any country mainly depends upon the development of its banking system. The term bank is either derived from Old Italian word banca or from a French word banque both mean a Bench or money exchange table. In olden days, European money lenders or money changers used to display (show) coins of different countries in big heaps (quantity) on benches or tables for the purpose of lending or exchanging.

Bank's definition as per Banking Regulation Act 1949:

According to Section 5(b) of Banking Regulation Act, 1949 (BR Act) the business of Banking is defined as accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise, and withdraw able by cheque, draft, order or otherwise

“Banking Company” means any company which transacts the business of banking in India. Company means any company as defined in Section 3 of the Companies Act, 1956 and includes a foreign company within the meaning of Section 591 of that Act.

Explanatory Example:

A manufacturing company (like Reliance Industries) which accepts the deposits of money from public for the purpose of financing its business is not deemed to transact the banking business. Thus the purpose of accepting deposits should be to lend or invest in securities only and not for financing its own business.

A. Understanding the role of (Organised Sector) Banks and (unorganised Sector) Money Lenders.

- a. Organised Sector:** Organised sector consist of the banking system comprises of scheduled & non-scheduled banks.

In India, banks have been broadly classified into scheduled and non-scheduled banks. A Scheduled Bank is that which has been included in the Second Schedule of the Reserve Bank of India Act, 1934 and fulfills the two conditions:

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

The banks which are not included in the Second Schedule of the Reserve Bank of India Act are non-scheduled banks.

Scheduled Banks consists of Scheduled Commercial Banks which are:

- Public Sector Banks
- Private Sector Banks
- Regional Rural Banks
- Foreign Banks

Scheduled Co-operative Banks consist of Urban Co-operative Banks and Rural Co-operative Banks.

Non-Scheduled Banks: Non-scheduled banks also function in the Indian banking space, in the form of Local Area Banks (LAB). Local area banks are banks that are set up under the scheme announced by the government of India in 1996, for the establishment of new private banks of a local nature; with jurisdiction over a maximum of three contiguous districts. LABs aid in the mobilisation of funds of rural and semi urban districts.

Payment Banks:

On 19 August 2015, the Reserve Bank of India gave "in-principle" licences to eleven entities to launch payments banks:

- Aditya Birla Nuvo
- Airtel M Commerce Services
- Cholamandalam Distribution Services
- Department of Posts

- FINO PayTech
- National Securities Depository
- Reliance Industries
- Dilip Shanghvi, Sun Pharmaceuticals
- Vijay Shekhar Sharma, Paytm
- Tech Mahindra
- Vodafone M-Pesa

The "in-principle" license is valid for 18 months within which the entities must fulfill the requirements. They are not allowed to engage in banking activities within the period. The RBI will consider grant full licenses under Section 22 of the Banking Regulation Act, 1949, after it is satisfied that the conditions have been fulfilled.

Small Finance Banks:

Small finance banks are a type of niche banks in India. Banks with a small finance bank license can provide basic banking service of acceptance of deposits and lending. The aim behind these to provide financial inclusion sections of the economy not being served by other banks, such as small business units, small and marginal farmers, micro and small industries and unorganised sector entities

On Sept 16, 2015, The Reserve Bank of India (RBI) has decided to grant “in-principle” approval to the following 10 applicants to set up small finance banks under the “Guidelines for Licensing of Small Finance Banks in the private sector” (Guidelines) issued on November 27, 2014.

Names of selected applicants

- Au Financiers (India) Ltd., Jaipur
- Capital Local Area Bank Ltd., Jalandhar
- Disha Microfin Private Ltd., Ahmedabad
- Equitas Holdings P Limited, Chennai
- ESAF Microfinance and Investments Private Ltd., Chennai
- Janalakshmi Financial Services Private Limited, Bengaluru
- RGVN (North East) Microfinance Limited, Guwahati
- Suryoday Micro Finance Private Ltd., Navi Mumbai
- Ujjivan Financial Services Private Ltd., Bengaluru

➤ Utkarsh Micro Finance Private Ltd., Varanasi

The “in-principle” approval granted will be valid for 18 months to enable the applicants to comply with the requirements under the Guidelines and fulfil other conditions as may be stipulated by the RBI. On being satisfied that the applicants have complied with the requisite conditions laid down by it as part of “in-principle” approval, the RBI would consider granting them a licence for commencement of banking business under Section 22(1) of the Banking Regulation Act, 1949.

Until a regular licence is issued, the applicants cannot undertake any banking business.

- b. **Unorganised Sector:** Banking needs of the financially excluded population is catered to by other unorganized entities distinct from banks, such as, moneylenders, pawnbrokers and indigenous bankers.

The economy on one hand performs through organised sector and on other hand in rural areas there is continuance of unorganised, informal and indigenous sector. The unorganised money market mostly finances short-term financial needs of farmers and small businessmen.

The main constituents of unorganised market are:

- i. **Indigenous Bankers (IBs):** Indigenous bankers are individuals or private firms who receive deposits and give loans and thereby operate as banks. IBs accept deposits as well as lend money. Further their lending operations are completely unsupervised and unregulated. Over the years, the significance of IBs has declined due to growing organised banking sector.
- ii. **Money Lenders (MLs):** They are those whose primary business is money lending. Money lending in India is very popular both in urban and rural areas. Interest rates are generally high. Large amount of loans are given for unproductive purposes. The operations of money lenders are prompt, informal and flexible. The borrowers are mostly poor farmers, artisans, petty traders and manual workers. Over the years the role of money lenders has declined due to the growing importance of organised banking sector.

iii. **Non - Banking Financial Companies (NBFCs):**

NBFC stands for non banking financial company that was created by the government of India under the Company Act 1956 to provide access to poor sections of the society to banking facilities.

- Though NBFC performs many of the functions of a bank, there are many differences.
- NBFC cannot accept money deposits in the manner of banks
- NBFC cannot issue checks drawn on itself

Normally, a NBFC is engaged in the business of loans and advances, acquisition of shares, debentures, stocks, bonds and securities issued by the government. It also indulges in hire-purchase, leasing, insurance and chit business.

They consist of:

Chit Funds: Chit funds are savings institutions. It has regular members who make periodic subscriptions to the fund. The beneficiary may be selected by drawing of lots. Chit fund is more popular in Kerala and Tamil Nadu. RBI has no control over the lending activities of chit funds.

Nidhis: Nidhis operate as a kind of mutual benefit for their members only. The loans are given to members at a reasonable rate of interest. Nidhis operate particularly in South India.

Loan Or Finance Companies: Loan companies are found in all parts of the country. Their total capital consists of borrowings, deposits and owned funds. They give loans to retailers, wholesalers, artisans and self employed persons. They offer a high rate of interest along with other incentives to attract deposits. They charge high rate of interest varying from 36% to 48% p.a.

Finance Brokers: They are found in all major urban markets specially in cloth, grain and commodity markets. They act as middlemen between lenders and borrowers. They charge commission for their services.

B. Differences between Banks and NBFCs: There are several notable differences between NBFC and a bank.

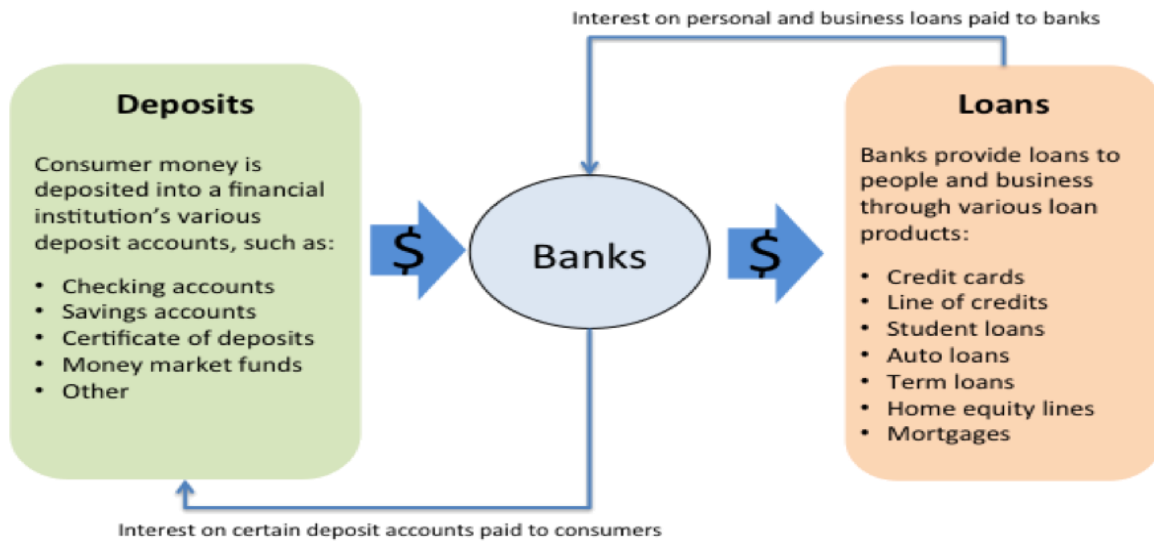
- NBFC cannot collect deposits in the manner of a bank
- NBFC cannot issue checks drawn on itself
- NBFC cannot issue Demand Drafts like banks
- NBFC cannot indulge primarily in agricultural or industrial activity
- NBFC cannot engage in construction of immovable property
- NBFC cannot accept demand deposits
- While banks are incorporated under banking companies act, NBFC is incorporated under Company Act of 2013

NBFC is required to register with Reserve Bank of India.

C. Difference between Organised and Unorganised Sector:

Organised is supervise / monitored by the Reserve Bank of India (RBI) and transparent in operations. The depositors are protected by the Deposit Insurance & Credit Guarantee Corporation. The interest rate charged for the loans in line with the market rate whereas the unorganised sector is not regulated, charge exorbitant interest rates and do not give receipts for the loan repayment.

D. Importance of Banks: Banks Intermediation Role:



A Bank links together customers that have surplus money (i.e. savers) and customers with shortage of money (i.e. borrowers).

In other words, Banks encourage the public to deposit their savings with them so that they can save money for their 'rainy days' by offering interest on their savings. The funds collected by banks in this way from the public by way of deposits are used by them to lend to the borrowers to fulfill their needs. Individual depositors will not give loan to any other person who wants money because it is risky Savers have faith in banks for the safety of their savings and deposit their savings with the banks.

Banks take the risk in financing the borrowers.

Agency and Utility Services: A bank provides various banking facilities to its customers. They include general utility services and agency services.

E. Role and Importance of Commercial Banks:

We use Bank accounts for the following reasons:

Safety: Storing all of your earnings in a place of residence isn't safe in the event of unforeseen occurrences such as theft, flood, or fire.

Convenience: When you have an account with a bank, you can access your money from anywhere. A bank account also makes it easier to pay bills and transfer money from person to person/place to place etc.

Interest earnings: Bank pays interest on the deposits which is income to the depositors.

The functions of commercial banks explain their importance in the economic development of a country. Banks help in accelerating the economic growth of a country in the following ways:

- a. Accelerating the Rate of Capital Formation:** Commercial banks encourage the habit of thrift and mobilise the savings of people. These savings are effectively allocated among the ultimate users of funds, i.e., investors for productive investment. So, savings of people result in capital formation which forms the basis of economic development.
- b. Provision of Finance and Credit:** Commercial banks are a very important source of finance and credit for trade and industry. The activities of commercial banks are not only confined to domestic trade and commerce, but extend to foreign trade also.
- c. Developing Entrepreneurship:** Banks promote entrepreneurship by underwriting the shares of new and existing companies and granting assistance in promoting new ventures or financing promotional activities. Banks finance sick (loss-making) industries for making them viable units.
- d. Promoting Balanced Regional Development:** Commercial banks provide credit facilities to rural people by opening branches in the backward areas. The funds collected in developed regions may be channelized for investments in the under developed regions of the country. In this way, they bring about more balanced regional development.
- e. Help to Consumers:** Commercial banks advance credit for purchase of durable consumer items like Vehicles, T.V., refrigerator etc., which are out of reach for some consumers due to their limited paying capacity. In this way, banks help in creating demand for such consumer goods.

1.2. Definition of Customer



“A Customer is the most important visitor on our premises.
He is not dependent on us, we are dependent on him.
He is not an interruption of our work; He is the purpose of it.
He is not an outsider to our business; He is a part of it.
We are not doing him a favor by serving him; He is doing us a favor by giving us an opportunity to do so.”

Mahatma Gandhi

A. The meaning of a Customer:

To constitute a customer of the bank, customer:

- should have an account with the bank
- should deal with the bank in its nature of regular banking business
- should deal with the bank without consideration of the duration and frequency of operation of his account

As soon as a person opens account with the Bank, he becomes a customer of the bank. He is eligible to avail all the services of the Bank.

Banks has various types of customers who has different needs viz. Individual Clients with similar requirements & Corporate Clients

B. The Rights & Duties of the Customer towards the Banker:

a. Customer's Rights: Main rights and duties of a customer towards the banker in brief are as under:

- A customer who has deposited money can draw check on his account up to the extent of his credit balance or according to overdraft limit sanctioned to him by the bank.
- A customer has the right to receive statement of accounts from the bank.
- A customer has the right to sue the bank for compensation of a wrongful dishonor of his check.
- A customer has a right to sue and demand compensation if the bank fails to maintain the secrecy of his account.

b. Customer's Duties:

- It is the duty of the customer to present cheques and other negotiable instruments during the business hours of the bank and within the validity of the cheques.
- A customer must keep the check books issued by the bank in safe custody. In case of theft or loss, it is the duty of the customer to report the matter immediately to the bank.
- A customer should fill the check with utmost care.
- If a customer finds any forgery in the amounts of the check issued by him. It should then be immediately reported to the bank.

C. Duties of the Banker towards the Customer

a. Honour customer's check if:

- they are properly drawn
- the customer has balance to his credit OR has arranged for an overdraft limit
- there is no legal bar or restriction attaching to the customer's funds

b. Standing Orders

It is the duty of the bank to abide by the standing orders of the customers in making periodical payments on his behalf to Clubs (Subscriptions), Libraries (Subscriptions), Insurance premium, Utility Payments (Electricity, Telephone...) etc.

c. Secrecy of the customer's account

The bank owes a contractual duty not to disclose the customer's financial position to others without his consent excepting on the following occasions:

- When a banker is required to give evidence in the court
- When there is national emergency and disclosure is essential in the public interest.
- When there are clear proofs of treason to the state
- When consent is given by the customer to provide information (example: to other banks / lenders)

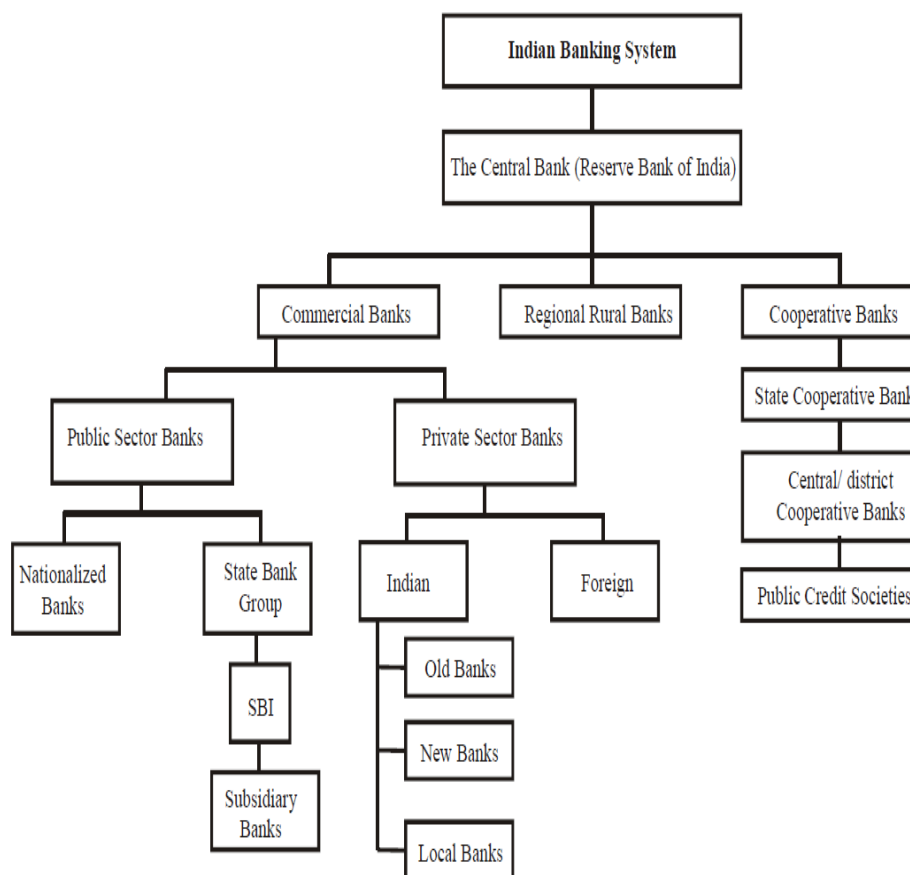
d. Garnishee order (Court order)

It is the duty of the banker to abide by the order of the court (garnishee order) and attach the funds of the customer to the creditors who have obtained the order in their favor.

e. Rights of a banker to set off : A Banker has the right:

- to adjust his outstanding dues in the name of the customer from his credit balance of any of the accounts he is maintaining with the bank
- to charge interest commission etc. according to the rates for the services the banker has rendered to the customer as agent, trustee etc
- to retain the property belonging to the customer until the dues due from him has been paid (right of lien)

1.3. Classification of Banks



Banks in India are classified as follows on the basis of their method of incorporation and ownership.

Reserve Bank of India (RBI), the Central Bank of the Country has Nationalised Banks – Wholly owned by the Government of India.

National Agricultural Bank for Rural Development (NABARD): is the Apex Bank for all Agricultural financing by all other banks in the country. It provides guidance, to the banks, and refines their agricultural advances etc. NABARD borrows from public by floating bonds for the purpose of financing other banks for agricultural lending.

EXIM Bank (Export-Import Bank of India): This is the apex bank in India in the field of financing of Exports and Imports, to encourage and assist exporters of Indian products.

EXIM Bank borrows from public by floating bonds and also accepts Fixed Deposits for the purpose of refinancing other banks and also directly to exporters.

A. Reserve Bank of India:



RBI is 'The Central Bank' of our Country which is headquartered in Mumbai. RBI was established on April 1, 1935. In India, the RBI supervises operations of all the banks.

RBI Goal:

- Generate, Maintain and Promote public confidence in the banking / Financial system in the country
- Protect Investors' interest by accurate, timely disclosure by institutions and access to information by the investors
- Ensure that the financial markets are fair and efficient
- Ensure that the rules of the marketplace are followed by all participants

RBI Functions: The RBI's functions include the following:

- i. The Monetary Authority of the country
- ii. Regulator and supervisor of the financial system:
 - Manager of Foreign Exchange

- Issuer of currency- Issuing new currency notes to the public and withdrawing unusable currency notes. These two activities are conducted through the banks.
- Plays a Developmental role
- Banker to the Government: Collects all the taxes on behalf of the governments from the individuals, Corporate etc. due to the governments, accounts for them properly and makes the disbursement payments to the different payees on behalf of the governments – manages the debts of the governments by Issuing Treasury Bills/Notes/ Bonds to Investors for raising loans and repaying them on due dates.
- Banker to banks: maintains banking accounts of all scheduled banks– the Central Bank also acts as the lender of the last resort to the banks – when banks are in need of funds and have no other means to borrow, the Central Bank comes to their help by lending them.
- Giving Licenses to Companies incorporated in India to operate as banks
- Monitors the value of Indian Rupees-The value of the Indian Rupee against foreign currencies fluctuates depending upon the demand for and supply of such foreign currencies. So, RBI closely monitors the factors that cause the fluctuations and tries to keep the fluctuations under control through suitable steps.
- Maintaining the Foreign Exchange Reserves – Reserves are the savings of the country and hence very important. So RBI builds up healthy levels of Foreign exchange reserves, advising the Government on matters relating to the Economy etc.
- RBI collects statistics about the economic indicators like the Price levels of various commodities, interest rate levels, monetary liquidity levels, forex reserves levels, value of the Indian Rupee etc., and presents its reports to the governments

B. Commercial Banks: Commercial Banks consists of the Public Sector Banks, Private Sector Banks and Foreign Banks

a. Public Sector Banks (PSBs):

Public Sector Banks (PSBs) are banks where a majority stake (i.e. more than 50%) is held by a government e.g. State Bank of India, Punjab National Bank, Bank of Baroda etc. The shares of these banks are listed on stock exchanges. There are a total of 27 PSBs in India [21 Nationalised banks + 6 State bank group (SBI + 5 associates)].

The presidency Banks of Bengal, Bombay and Madras with their 70 branches were merged in 1921 to form the Imperial Bank of India. The new bank took on the triple role of a commercial bank, a banker's bank and a banker to the government.

On 1 July 1955, the Imperial Bank of India became the State Bank of India. In 1959, the government passed the State Bank of India (Subsidiary Banks) Act. This made SBI subsidiaries of eight that had belonged to princely states prior to their nationalization and operational take-over between September 1959 and October 1960, which made eight state banks associates of SBI. The seven other state banks became the subsidiaries of the new bank when nationalised on 19 July 1969. In 2008, the Government of India acquired the Reserve Bank of India's stake in SBI so as to remove any conflict of interest because the RBI is the country's banking regulatory authority.

The next major nationalisation of banks took place in 1969 when the government of India, under Prime Minister Indira Gandhi, nationalised an additional 14 major banks. The total deposits in the banks nationalised in 1969 amounted to 50 crores. This move increased the presence of nationalised banks in India, with 84% of the total branches coming under government control.

The next round of nationalisation took place in April 1980. The government nationalised six banks. The total deposits of these banks amounted to around 200 crores. This move led to a further increase in the number of branches in the market, increasing to 91% of the total branch network of the country.

The objectives behind nationalisation were:

- To break the ownership and control of banks by a few business families,
- To prevent the concentration of wealth and economic power,
- To mobilize savings from masses from all parts of the country,
- To cater to the needs of the priority sectors.

In 1963 SBI merged State Bank of Jaipur (est. 1943) and State Bank of Bikaner (est. 1944). There has been a proposal to merge all the associate banks into SBI to create a "mega bank" and streamline the group's operations. The first step towards unification occurred on 13 August 2008 when State Bank of Saurashtra merged with SBI, reducing the number of

associate state banks from seven to six. Then absorption of State Bank of Indore completed on 26 August 2010

- b. New Private Sector Banks:** HDFC Bank, ICICI Bank, Axis Bank, etc opened after 1991 due to opening up of the economy by the Government of India. Private sector banks are owned, managed and controlled by private promoters and they undertake all types of banking transactions are undertaken by them.
- c. Old Private Sector Banks:** J & K Bank Ltd., Development Credit Bank Ltd., Karnataka Bank Ltd., South Indian Bank Ltd., etc. - which were all opened prior to 1991. All types of banking transactions are available.
- d. Foreign Banks:** Citibank, Bank of America etc., which are incorporated abroad but are having branches in India. All types of banking transactions are undertaken by them.

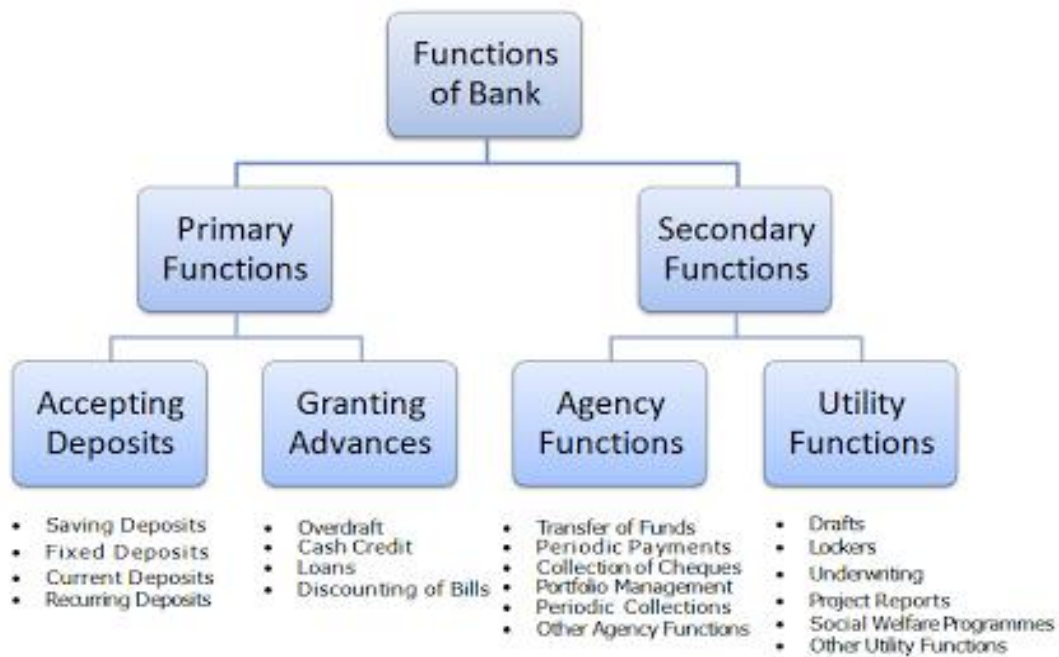
Other Banking Institutions:

Regional Rural Banks: These are jointly owned by the Government of India (50%), one of the Public Sector Banks (35%) and the Government of the State in which the RRB is situated (15%). They are meant to serve rural areas. All the banking services required by customers in the rural areas are available. High end services like Forex Transactions or Term loans for Projects of Corporate are not provided.

Co-operative Banks: These are registered as Co-operative Societies under the respective State (and or) Central Laws and function as banks under License from RBI. Cooperative Banks are governed by the provisions of State Cooperative Societies Act and meant essentially for providing cheap credit to their members. They are an important source of rural agricultural financing in India. Urban Cooperative banks serve the Banking needs of people in urban areas.

1.4. Functions of a Bank

Banks' functions can be segregated into Primary and Secondary functions as follows:



A. Primary Functions: There are two primary functions of a commercial bank as given in Banking Regulations Act, 1949.

a. Accepting deposits of money from the public in the form of

- Savings accounts
- Current accounts
- Fixed deposits
- Recurring deposits

These deposits are withdrawable by cheque order or otherwise

b. Advancing Loans: The other important function of the banks is to make loans and advances to the needy people in the form of:

- Over drafts
- Cash credits
- Term loans
- Discounting of bills
- Credit Cards loan

Banks are also permitted to invest their funds in securities which may be Government securities or corporate securities

B. The Secondary Functions of a Bank

Transfer of funds: Helps customers to transfer money to another customer of the same bank or of any other bank in the same country or even in another foreign country.

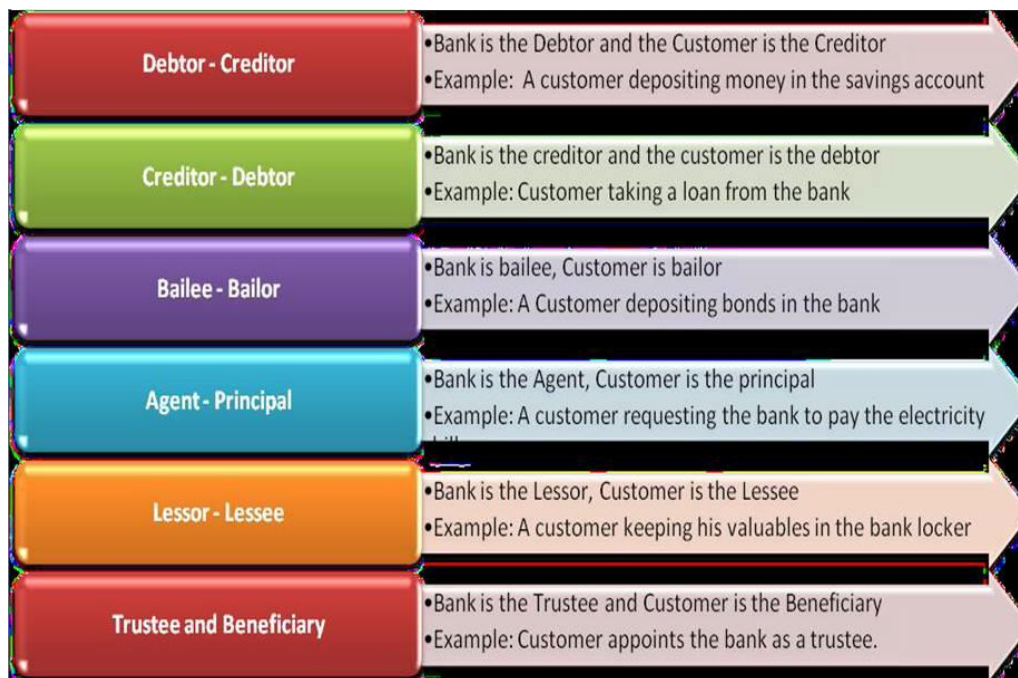
Agency services provided by Commercial Banks:

- Purchasing and selling of shares, securities, bonds etc. on behalf of its customers
- Collection and regular payments of bills, checks and other commercial instruments, dividends, interest etc. as per the standing instructions given by their customers.
- Collection and payment of rents, insurance premium and other charges.
- Acts as trustees, representatives and executors of their clients.
- Acts as income tax consultants and they prepare and finalize the income tax returns of their clients.

C. General Utility services rendered by Commercial Banks:

- Safety vaults or lockers to provide security to their valuables like ornaments, documents etc.
- Encash / Issue of traveller's checks from/to tourists.
- Issuing letter of credits to businessmen.
- Issuing Debit / Credit Cards to their customers.
- Providing the facility of withdrawing cash anytime through ATM.
- Underwriting of Shares and Debentures issued by the companies.
- Providing consultancy services regarding shares, taxation etc. to the companies.
- Lending advice as a Merchant Banker to industries about their new projects, issue of shares and capital structure etc.

1.5. Relationship between Banker and Customer



The relationship between the banker and customer is very important. It is generally studied under the following two heads:

- Basic Relationship
- Special Relationship

A. Basic Relationship:

- a. Debtor and Creditor:** The basic relationship between banker and customer is primarily that of a debtor and creditor. When a customer deposits money with a bank, Bank becomes the debtor and Customer the creditor. It will be returned to him on demand or as the specified period of tenure within business hours. The money will be remain safe and will earn interest
- b. Creditor and Debtor:** The position is reversed if the customer is advanced a loan by the Bank. Banker becomes creditor and Customer is debtor.

B. Special Relationships

a. Bailor and Bailee relationship:

- Bailment is a contract for delivering goods by one party to another to be held in trust for a specific period and returned back to him when the purpose is over.
- Bailor is the party that delivers the goods.
- Bailee is the party to whom the goods are delivered

So, when a customer gives a sealed box to the bank for safe custody, the customer becomes the Bailor, and the bank becomes the Bailee. A bank may accept the valuables of his customer such as jewelry, documents, and securities for safe custody.

b. Agent - Principal: Banker acts as agent of the customer for various purposes such as

- Customer (principal) deposits with Banks, cheques, drafts, dividends warrants for collection.
- He also gives written instructions to the bank to purchase securities, pay insurance premium, installments of loans etc. on his behalf

c. Lessor and Lessee: When the banker hires a safe deposit locker to the customer. Banker becomes the Lessor, and Customer will become the Lessee.

d. Trustee and Beneficiary: A trustee holds property on behalf of the beneficiary, and the income earned from the property belongs to the beneficiary. If the customer creates a Trust and appoints the bank as Trustee, the bank administers the property for the benefit of the beneficiary named in the Trust Deed.

C. Other Relationships:

a. Pledger and Pledgee: A customer pledges certain goods (assets) or securities with the bank in order to get a loan. In this case, Customer becomes the Pledger, and Bank becomes the Pledgee.

b. Hypothecator and Hypothecatee: When the customer gives certain movable assets to the banker in order to get a loan, Customer becomes the Hypothecator, and Banker becomes the Hypothecatee.

- c. **Advisor and Client:** When a customer invests in securities on the advice of his bank, the banker acts as an advisor.

1.6. Summary:

- Bank defined as per Section 5(b) of Banking Regulation Act, 1949 (BR Act) means the accepting for the purpose of lending or investment of deposits of money from the public, repayable on demand or otherwise, and with-drawable by cheque, draft, order or otherwise Bank plays an intermediary role linking the customers that have surplus money (i.e. savers) and customers with shortage of money (i.e. borrowers)
- Customer of the Bank is the one that purchases services provided by the Bank Duties of the Banker include honor cheques, carry out standing instructions, and maintain Client confidentiality. Rights of the Banks are right of set off, right to charge interest, commission etc., Rights to lien for recovery of dues
- Indian Banking structure has RBI as the apex bank and has Public Sector Banks, Private Sector Banks, Foreign Banks, Regional Rural Banks and Co-operative Banks under it.
- Primary Functions of the Bank are Accepting deposits, advancing loans, Transfer of Deposit and permitting withdrawal of money and Secondary Functions consist of agency services and general utility services rendered.
- Depending on the services taken from the Bank, the Bank has different types of relationship with the customers which is divided into General relationship (Debtor and Creditor) and Special relationship (Principal and Agent, Pledger and Pledgee, Lessor and Lessee, Bailer and Bailee relationship etc.)

Key Words:

1. BR Act 1949 - Banking Regulation Act 1949
2. RBI Act 1934 – Reserve Bank of India Act 1934
3. IBs - Indigenous Bankers
4. MLs – Money Lenders
5. NBFC – Non Banking Financial Companies

6. DICGC - Deposit Insurance & Credit Guarantee Corporation
7. NABARD - National Agricultural Bank for Rural Development
8. EXIM Bank - Export-Import Bank of India
9. PSBs - Public Sector Banks

Self Test Questions:

I. Choose the correct option:

1. Why are Banks used for depositing Money?
 - a) Safety
 - b) Liquidity
 - c) None of the above
 - d) Both of the above

2. Which Act defines the business functioning of a bank in India?
 - a) Banking Regulation Act 1939
 - b) Banking Regulation Act 1947
 - c) Banking Regulation Act 1949
 - d) Reserve Bank of India Act 1934

3. A person becomes a customer of the bank as soon as he ____
 - a) Walks into the Branch
 - b) Opens account with the Bank
 - c) Takes Account opening form
 - d) Speaks to the Branch Manager

4. Selling Bank's other products to the existing customers is called?
 - a) Cross Selling
 - b) Retailing
 - c) Customer outreach
 - d) Customer accretion

5. In deposit accounts, the main relationship between Bank and customer is
 - a) creditor - bank, debtor - customer
 - b) creditor - customer, debtor - Bank
 - c) agent – principal
 - d) only A and B

6. When a Bank lends money to a corporate , the relationship is _____
- a) borrower and lender
 - b) creditor - debtor
 - c) debtor - creditor
 - d) customer and client
7. What relationship is created when the bank collects a cheque in clearing?
- a) Holder for value
 - b) Clearing member and principal
 - c) Agent - principal
 - d) Collecting Bank and holder
8. The liability of drawer of cheque is to make payment, when there is availability of _____
- a) Sufficient funds
 - b) Properly applicable for payment
 - c) Required so by drawer
 - d) All of the Above
9. A bank gets banking license from
- a) RBI
 - b) The Govt. of India
 - c) A State Govt./Union Territory
 - d) Registrar of Companies
10. Which of the following is not a primary function of the Bank?
- a) Granting loans
 - b) Collecting cheques / draft
 - c) Facilitating of import of goods
 - d) Selling Gold / Silver coins

Answers: 1 – d, 2 - c, 3 – b, 4 – a, 5 – b, 6 - b, 7 -c, 8 - d, 9 - a, 10 – d.
--

II. Fill in the blanks:

1. Bank links together customers that have surplus money (i.e. savers) and customers with shortage of money (i.e. Borrowers). This role is known as ____
2. The risk of the borrower not repaying the loan amount or the interest or both on due dates or paying only partially is known as ____.
3. Lack of control over customer data can lead to _____
4. RBI is the central bank of India and was established on April 1, ____
5. The basic functions of banks are ____
6. Performing the transformational role helps banks manage _____, _____ and _____ risks.
7. Sharing client personal sensitive information is known as _____ Breach of Trust
8. Banks have recently launched a service through which money can be transferred using mobile phones. This service is known as _____.
9. Banks are regulated by ____
10. Demand Deposits are payable on ____

Answers: 1- Intermediation, 2 – Credit Risk, 3 - Frauds, 4 - 1935 , 5 - Accepting deposits and advancing loans, 6 – Credit risk, Liquidity risk and Interest rate risk, 7 – client confidentiality, 8 – Mobile Banking, 9 – RBI , 10 – Demand

III. Match the following:

- | | |
|--------------------------|---|
| 1. Scheduled Bank | RBI |
| 2. Central Bank of India | Periodic payments by customers |
| 3. Standing Orders | Apex Bank for all Agricultural financing by all other banks in the country. |
| 4. Garnishee Order | HDFC Bank |
| 5. NABARD | Order of the Court |

6. Banker to Banks

14 Major Banks were nationalised

7. 1969

RBI Function

Answers: 1 – 4, 2 – 1, 3- 2, 4 – 5, 5 – 3, 6 – 6, 7 – 6

IV. True or False:

1. Scheduled bank has to have paid up capital and reserves of at least Rs 50 lakhs.
2. Local Area Banks are included in the list of Scheduled banks
3. On 19 August 2015, the Reserve Bank of India gave "in-principle" licences to eleven entities to launch payments banks
4. In - principle approval given to payment banks is valid for 24 months
5. NBFC can issue cheques drawn on itself
6. NBFC are regulated by RBI

Answers: 1 – False, 2, False, 3- True, 4 – False, 5 – False, 6 – True

V. Answer the following briefly

1. Explain the definition of business of banking?
2. What are the conditions to be fulfilled for the bank to be recognised as Scheduled Bank?
3. What is the aim of Small Finance Banks?
4. What are NBFC?
5. Briefly explain the intermediation role of the Bank?
6. When a customer becomes Bank's customer?

VI. Answer in detail:

1. What is the need of banking system?
2. Explain the main functions of RBI?
3. What are the different types of Banks found in India?
4. Explain what role does a Retail Bank plays in the development of economy?
5. What are the different types of relationship a Bank has with its customers?

6. Discuss the rights / duties of the Bank to the customer?
7. Briefly explain the Banking structure of India?
8. Explain the difference between Primary and Secondary functions of the Bank?
9. Explain the features of the NBFC?

VII. Activities:

1. Prepare a chart showing the various types of Banking and their uses in India?
2. Visit the RBI office and prepare a chart showing the various functions of RBI?
3. Develop a pictorial chart depicting the various relationships Bank has with its customers?

Learning Objective – Unit 2

LOCATION	DURATION – 20 HOURS			
Classroom Or Banks	SESSION-I DEMAND DEPOSIT			
	Learning Outcome	Knowledge Evaluation	Performance Evaluation	Teaching and Training Method
	To understand the meaning of demand deposit To be acquainted with the meaning and features of saving account and current account	Describe the term “demand deposit” Types of demand deposit Enumerate the meaning of Saving Account and Current Account State the features of Saving Account and Current Account	Identify the types of Demand deposit Awareness of Saving Account and Current Account. Enlist the major features of Saving Account and Current Account	Interactive lecture highlighting the need of demand deposits Activity – Visit five banks and compare the facilities provided in different types of Accounts. Prepare a comparative table.
	SESSION-II TERM DEPOSIT			
	To Identify the meaning and features of fixed deposit account and the factors affecting the rate of interest on term of deposit.	Explain the meaning of Fixed deposit account Enlist the features of Fixed deposit account Identify the factors which affect the rate of interest	List out various factors responsible for determining Rate of interest. Evaluate the meaning and features of a fixed deposit account.	Interactive lecture on the role& features of fixed deposit account. Activity- Visit various bank and compare interest on FD A/c and prepare comparative report
	SESSION –III OTHER DEPOSITS RECURRING DEPOSIT			
	To understand the meaning and features of Recurring Deposits	The need of recurring deposit account Various aspects of Cumulative Deposit Account	Explain the meaning of recurring deposit Enumerate the characteristics of recurring deposit	Interactive lecture on the need of Recurring Deposit Account in a bank. Activity- Group Discussion on the need and requisites of Recurring Deposit Account to depositor and bank.

SESSION –IV TYPE OF ACCOUNT HOLDERS			
To understand the concept of various types of special Account holders with bank.	Identifying the Special Account holders Partnership firms Minors Joint stock company Joint Account Hindu undivided family	Enlisting the types of Account holders with banks. Describe the provision of opening the Account of minor. Precautions to be taken by bank while opening of accounts. (Joint account, Partnership account etc.)	Interactive lecture on the various types of special Account Holders with banks Activity -Divide the class in groups and each group has to submit a report on any one type of account holder.
SESSION -V OPENING AND OPERATING OF ACCOUNT			
To know the procedure of opening a new Account in Bank (Saving /Current) and to understand their operating procedures	Describe the procedure of opening Saving /Current Account Application on prescribed form Introduction of Applicant Specimen Sign. Declaration from applicant To fulfil know your customer request Opening the A/c Allotting UCIC(Unique customer identification code) Explain the procedure of operating the Account	Detailed description of how to open the Account with bank. Explain the meaning and usage of pay in slip, pass book, cheque book How can UCIC be helpful to banks? Draw the specimen of pay in slip, pass book and cheque book	Interactive lecture on the opening and operating of Current and Saving Account Activity – Visit 5 banks to collect pay in slips and forms of opening the Saving and Current Account. Prepare a profile of those banks.
SESSION –VI CASH BOOK, PASS BOOK AND BANK RECONCILIATION STATEMENT			
To understand the meaning of Pass Book, Cash Book and Bank Reconciliation Statement (BRS) Purpose and Procedure of maintaining BRS.	Examine the meaning of Pass Book Explain what Cash Book is. Identify the need of BRS. Brief procedure of preparing	List out the need of preparing BRS Explain in detail the meaning of pass book and cash book How are Pass Book and Cash Bok reconciled?	Interactive lecture on how to maintain Pass Book, Cash Book and the reconciliation process of the same. Activity –Prepare a small cash book

		BRS through comparison of cash book and pass book transaction of a given period.		and pass book based on hypothetical figures and prepare a BRS.
--	--	--	--	--

UNIT 2

DEPOSIT ACCOUNTS

OBJECTIVES

After reading this unit, you will be able to:

- List the major features of the Demand Deposit accounts.
- Explain Term Deposits and the factors impacting the interest rate
- Define Recurring Deposits and its features
- List the safeguards taken by the Bank while opening special account holders
- Understand the Bank accounting opening process
- Explain the process of preparing Bank Reconciliation statement and its uses

STRUCTURE

- 2.1. Demand Deposits
- 2.2. Term Deposits
- 2.3. Other Deposit Scheme
- 2.4. Types of Account Holders
- 2.5. Opening of Accounts
- 2.6. Cash Book, Pass Book & Bank Reconciliation statement
- 2.7. Summary
- 2.8. Practice Questions

2.1. Demand Deposits

Deposits in banks can be broadly classified into two categories: Demand Deposits and Time Deposits. Demand deposits are those which are repayable by the banks 'on demand' by the depositor. These deposits have no time restrictions by the banks – no minimum maximum periods are stipulated. Customers may deposit any amounts in the accounts at any time and also withdraw such amounts at any time without giving notice to the banks. Savings Bank accounts (SB Accounts) and Current Accounts (CAs) fall in this category.

Time Deposits are withdrawable only at the end of agreed maturity period of such deposits. Fixed Deposits (FDs) and Recurring Deposits (RDs) fall in this category.

A. Savings Accounts

Savings deposits, which are also demand deposits, are subject to restrictions on the number of withdrawals as well as on the amounts of withdrawals during any specified period. Further, minimum balances maintained in the accounts are also prescribed in order to offset the cost of maintaining and servicing such deposits. Savings deposits are deposits on which interest is paid at a fixed rate set by the banks (Ranges from 4.0 % to 7% p.a. presently in different banks).

Savings account funds are considered one of the most liquid investments. Savings accounts are generally for money that investors don't intend to use for daily expenses. Due to low interest rate, SB accounts should not be used for long-term holding periods. Their main advantages are liquidity and superior rates compared to Current accounts. These accounts provide cheque facility. Most of the banks have rules for the maximum number of withdrawals in a period and the maximum amount of withdrawal. Under RBI directions, now banks are required to open 'no frill' accounts (accounts which do not have any minimum balance requirements). Although Public Sector Banks still pay only 4% rate of interest, some private banks like Kotak Bank and Yes Bank pay between 6% and 7% on such deposits. Interest earned up to Rs 10,000 in a financial year on Saving Bank accounts is exempted from income tax. Banks as a rule do not give overdraft facility in a saving account.

A. Features of Saving Account: The main features of saving account in a bank are as follows:

- The main objective of saving account is to promote savings.
- There is no restriction on the number and amount of deposits. However, in India, mandatory PAN (Permanent Account Number) details are required to be furnished for undertaking cash transactions exceeding Rs.50,000.
- Withdrawals are allowed subject to certain restrictions.
- The money can be withdrawn either by cheque or withdrawal slip issued by the respective bank.
- The rate of interest payable on saving accounts is now determined by the banks themselves. At present it is between 4% to 7 % p.a.
- Saving account is of continuing nature. There is no maximum period of holding.
- A minimum amount has to be kept in the saving account to keep it functioning. This amount is determined by banks themselves. Banks charge a penalty (or fee) for not maintaining the minimum balances in savings account.
- No loan facility is provided against saving account.
- Electronic clearing System (ECS) or E-Banking are available to pay electricity bill, telephone bill and other routine household expenses.
- Generally, equated monthly installments (EMI) for housing loan, personal loan, car loan, etc., are paid (routed) through saving bank account.
- Nomination facility is available in case of savings accounts,
- Standing Instructions can be given to the bank to carry out specific instructions at specified intervals without reference to the customers every time. E.g. Transfer to a Fixed Deposit, Transfer to a Recurring Deposit, Make recurring payments like LIC premium, Installments etc.
- Internet Banking for accessing accounts through online is also available
- Anywhere Banking - This facility entitles the account holder to withdraw or deposit cash up to a limit of Rs.50,000 across all branches of the same bank.
- Deposit Insurance and Credit Guarantee Corporation insures the insures all bank deposits, such as saving, fixed, current, recurring deposits for up to the limit of Rs. 100,000 of each depositor in a bank

Interest calculations on savings account balances: Banks calculate interest on a daily balance method – i.e. Interest is calculated for each day based on the closing balance held at the end of the day and paid at quarterly or at half yearly intervals.

Eligibility for opening a savings account: Any Resident Indian above the age of 18 years can open savings accounts if the depositor wants to operate the account by himself/herself. However RBI has also permitted banks to open SB accounts of school/college students in their own names but no overdraft facility is to be permitted in such accounts.

B. Current Accounts

A Current account is always a Demand Deposit and the bank is obliged to pay the money on demand by the customer. The Current accounts bear no interest and they account for the smallest fraction among the current, saving and term deposits. They provide the convenient operation facility to the individual / firm. The cost to maintain the accounts is high. Therefore, banks ask the customers to keep a minimum balance in such accounts.

- a. Users of Current Accounts:** Current Account is primarily meant for businessmen, firms, companies, and public enterprises etc. Which undertake numerous banking transactions every day. Current Accounts are cheque operated accounts, and so meant neither for the purpose of earning interest nor for the purpose of savings. In a Current Account, a customer can deposit any amount of money any number of times. He can also withdraw any amount as many times as he wants, as long as he has funds to his credit. Generally, a higher minimum balance as compared to Savings Account is required to be maintained in Current account.

As per RBI directives banks are not allowed to pay any interest on the balances maintained in Current accounts. Because of the large number of transactions in the account and volatile nature of balances maintained, banks usually levy certain service charges for operating a Current account.

Current Account can be opened by an individual who has attained majority, two or more individuals in their joint names, sole proprietorship concerns, partnership concerns, Hindu Undivided Family (HUF), Limited Companies, Clubs, Societies, Trusts, Executors and Administrators, Others - Government and semi Government bodies, local authorities etc.

b. The Features of current Accounts:

- It is a non-interest bearing bank account.
- It needs a higher minimum balance to be maintained as compared to the savings account.
- Penalty is charged if minimum balance is not maintained in the current account.
- It charges interest on the short-term funds borrowed from the bank.
- It is of a continuing nature as there is no fixed period to hold a current account.
- It does not promote saving habits amongst its account holders.
- The main objective of current account is to enable the businessmen to conduct their business transactions smoothly.
- There is no restriction on the number and amount of deposits.
- There is also no restriction on the number and amount of withdrawals made, as long as the current account holder has funds in his bank account.

2.2. Term Deposits:

The account which is opened for a particular fixed period (time) by depositing particular amount (money) is known as Fixed (Term) Deposit Account. The term 'fixed deposit' means that the deposit has been made for a fixed period and is repayable only after the specific period is over.

A. Types of Term Deposits: There are three types of Term Deposits available:

- a. Fixed deposits:** A fixed rate of interest is paid at fixed, regular (monthly/quarterly/half yearly) intervals and the principal amount is returned at the end of the maturity period. The interest may be paid in cash to the depositor or may be credited to his savings account, as instructed by him.



b. Re-investment deposits: Interest is compounded quarterly and paid on maturity, along with the principal amount of the deposit. In case of the Flexi or Sweep Deposits, savings account amount beyond a fixed limit is automatically converted into term-deposits. For example, a customer may decide that any amount in his savings accounts in excess of Rs 50,000 be automatically transferred to a fixed deposit account. If the balance in his account rises to Rs 80,000, then Rs 30,000 will be transferred to a fixed deposit account. This amount will be transferred back to his savings account if he needs to withdraw.

B. Features of Fixed Deposit Account: The main features of fixed deposit account are as follows:

- The main purpose of fixed deposit account is to enable the individuals to earn a higher rate of interest on their surplus funds (extra money).
- The amount can be deposited only once. For further such deposits, separate accounts need to be opened.
- The period of fixed deposits range between 15 days to 10 years.
- A high interest rate is paid on fixed deposits. The rate of interest may vary as per amount, period and from bank to bank.
- Withdrawals before maturity are not allowed. However, in case of emergency, banks allow to close the fixed deposit account prior to maturity date. In such cases, the bank deducts 1% (deduction percentage may vary) from the interest payable as on that date on the basis of the period for which the deposit was actually transferred. For example, a Fixed Deposit receipt is issued for 3 years at the interest rate of 9%. If after one year, the depositor wants pre mature encashment, bank will pay interest at

8% only, because interest payable on one year deposit was 9%. Out of 9%, one percent penalty will be deducted.

- The depositor is given a fixed deposit receipt at the time the deposit is made. He shall have to produce it at the time of maturity. The deposit can be renewed for a further period also at the time of maturity.

C. Advantages of Fixed Deposit: Fixed deposits with the banks are nearly 100% safe as all banks are governed by the RBI's rules and regulations. So, bank deposits are among the safest modes of investment. One can get loans up to 75- 90% of the deposit amount from banks against fixed deposit receipts. Though the interest charged will be slightly more than the interest earned by the deposit. In case of loss of a fixed deposit receipt, an indemnity bond has to be executed by the depositor for obtaining a duplicate one.

D. Factors Affecting the Rate of Interest: The rates are decided by the banks themselves for various period based on the general conditions of liquidity prevailing in the economy.

- **Policies of RBI:** In order to achieve optimum credit control and flow of funds within the country, RBI imposes several norms and restrictions on the banks. According to RBI, the Cash Reserve Ratio and Repo Rate vary, and eventually the interest rates on banking instruments, including fixed deposits, changes.
- **Recession:** Recession can be simply defined as unemployment crossing a certain threshold or benchmark within a country. During recession, there is economic slowdown and the purchasing power of people is attenuated significantly. As a result, RBI is forced to release funds in the market. It achieves this by reducing the cash reserve ratio of banks. Thus, the fixed deposits rate of interest decrease.
- **Inflation:** In contrast to recession, inflation occurs when prices of goods become dearer. At such times, lenders (i.e. banks) are gripped by the fear of rupee devaluation and reduction of purchasing power over lent amount. Thus to compensate for the interest losses of lent loans, banks offer higher interest rates on term deposits.
- **Current State of the Economy:** Economic conditions play a vital role in deciding the return rates of various financial instruments. Whenever the country is developing, its

economy is growing and the credit demand is high. At such times, banks make FDs attractive to compensate the rising credit demand.

2.3. Other Deposit Scheme

A. Recurring Deposit



A Recurring deposit is a type of Term Deposit in which a specified fixed amount is deposited at regular intervals for a fixed term and the repayment of principal and accumulated interest is made at the end of the term. Recurring deposit (RD) account is generally opened for a purpose to be served at a future date. RD is generally opened to finance pre-planned future purposes like expenses of daughter wedding, purchase of costly items like land, luxury car, refrigerator or air conditioner, etc.

B. Features of Recurring Deposit Account: The main features of recurring deposit account are as follows:

- The main objective of recurring deposit account is to develop regular savings habit among the public.
- In India, minimum amount that can be deposited is Rs.10 at regular intervals.
- The period of deposit is minimum six months and maximum ten years.
- The rate of interest is higher than other accounts.

- No withdrawals are allowed. However, the bank may allow closing the account before the maturity period.
- The bank provides the loan facility. The loan can be given up to 75% of the amount standing to the credit of the account holder.

C. Advantages of Recurring Deposits: Recurring Bank Account provides:

- Compulsion to save
- Higher rates of interest as compared to Term Deposits
- Liquidity to have access those savings any time (through loans or refunds after deducting some penalty)
- Helps to create a huge corpus fund for future needs like child's education or marriage or buying a car without loans or even saving for a comfortable living in retired life.
- These deposits are usually targeted at persons who are salaried or receive other regular income
- Nomination facility is also available.

2.4. Types of Account Holders

Banks' customers can be classified into different categories depending upon their constitution.

Types of Bank Customers:

- Individuals
- Hindu Undivided Family (HUF)
- Proprietorship Firm
- Partnership Firm
- Limited Company– Private / Public
- Official Liquidator
- Clubs / Associations
- Trusts
- Corporate / Institutional Clients

Following are the special types of customers of a Bank:

- Minors
- Lunatics
- Drunkards
- Married women
- Illiterate Person
- Partnership Firm
- Trustees
- Executors
- Administrators etc.

A. Partnership account

Partnership firm is an organization in which two or more individuals who acts as co-owners. The partnership firm is not an a separate entity distinct from each of the partners because Section 4 of the Indian Partnership Act 1932, defines partnership as a relationship subsisting between persons who have agreed to share the profits of a business carried on by all or any of them acting for all. While opening an account the partnership letter should be signed by all the partners. The purpose of the business names address of persons and other details should be clearly mentioned in the account opening form. The partnership letter and the deed should contain the instructions pertaining to opening a bank account and its operations.

In case of any dispute among partners, if any, any partner must gives notice of stoppage of operations, and then the account would only be operative by all partners jointly. Death of the partner dissolves the partnership firm. In order to determine the liability of deceased partner the banker should close the account. Hence, bank should ensure the partnership deed is taken while opening the Bank account and stop operations of the account when one of the partners gives notice of stoppage of operations or on the death of a partner.

B. Minor

A person under the age of 18 yrs is a minor. If a court appoints a guardian and the minor is below 18 yrs the minority extends up to 21 yrs.

As per section 11 of the Indian Contract Act a minor is not competent to contract but section 26 of the Negotiable Instrument Act allows a minor to draw, endorse, deliver and negotiate a negotiable instrument. So, a banker can open an account in a minor's name. The

banker will be safe if the account runs with credit balance. The minor can be a partner but cannot be held liable for the liabilities of the partnership.

- a. A minor can have account under guardianship as well as self operated account.
 - i. **Self Operated Accounts:** A minor can open self-operated deposit account provided he has completed the age of 10 years and is literate. (A minor cannot appoint nominee in this account. On his behalf nomination will be done by a person legally competent to act on his behalf). Joint account of a minor is allowed with his guardian. Joint account is also allowed in the name of two minors provided both are of 10 years of age, are literate, belong to the same family and operation is jointly.
 - ii. **Accounts under Guardianship and Joint Accounts with Guardian:** As explained above, minor's account can be opened under guardianship of the natural guardian. In such cases it will be operated by the Guardian. An interesting case is that of a joint account with the guardian. In that case the account is operated by the natural guardian in two capacities – one as joint account holder and the other as a natural guardian of minor joint account holder. In such accounts special instructions like 'either or survivor' or 'jointly or survivor' should be obtained which remain dormant during minority of the minor and become operative after the minor becomes major.
- b. **Date of Birth of Minor:** In the case of accounts under guardianship, the bank needs to record the date of birth of the minor as given by the minor or the guardian. Birth certificate is not necessary and the declaration about the date of birth given by the guardian is sufficient and conclusive proof regarding his date of birth. The account will be operated by the guardian during minority of the child and once the minor becomes major the debit in the account will be allowed only with the consent of minor who has become major even though the cheques might have been issued prior to his attaining majority. If guardian dies during minority, next guardian will operate the account. In case the minor dies, the balance in the account will be paid to the legal heirs of the minor.
- c. **Mother as Guardian in Bank Accounts:** Though as per section 6 of the Hindu Minority and Guardianship Act, 1956, father is the natural guardian, RBI on the basis

of Supreme Court Judgment has allowed mother to open and operate all types of deposit accounts even though the father is alive. As per this judgment, both mother and father will act in the capacity of natural guardian simultaneously.

C. Joint Stock Company

An “artificial entity” created under The Companies Act, 2013. Company is a legal entity and the formation of the company is governed by Companies Act 2013.

While opening an account in company’s name the banker has to ask for:

- Certified copies of Memorandum and Articles of Association and Certificate of Incorporation.
- Names of the directors
- Certificate of commencement of business.
- Copy of resolution appointing the bank as Company’s Bank. And the names of the persons authorized to operate the account along with their signatures.
- Death of authorized signatories does not result in the stoppage of payments since the company is in existence.

Bank should ensure that company account is opened after a proper KYC documents are received and should allow operations of the accounts as per the authorised signatory list provided along with the drawing powers of each person.

D. Joint Account

Joint account means account of two or more persons who are not partners. A banker should keep in view the following provisions while opening and operating joint accounts:

- The account should be opened only on receiving application signed by all persons applying for opening the account.
- A mandate signed by all the parties containing clear instructions as to how the account is to be operated should be obtained.
- Instructions regarding the operation of account must be clearly written in the account opening form/specimen signature card.
- In absence of “either or survivor” instruction the balance will be payable to all the joint account holders including legal representative/heirs of the deceased but in case of “either or survivor” instruction the balance will be payable to the survivor (s).
- It is wise to stop the operation of a joint account after the death of anyone of the joint account holders and a new account be opened in the name of surviving account holder(s).

E. Hindu Undivided Family (HUF)

A Hindu Undivided Family [H U F] maintains ancestral property and carries on ancestral business. The eldest living male member of the family known as the ‘Karta’ will operate the account. Where a Hindu dies leaving a business, the business is passed onto the legal heads. It becomes HUF property. The members of the family are called Coparceners and eldest male child is the manager or the Karta. The Karta has the implied authority to avail loan and execute necessary documents on behalf of the HUF. It binds all the members. The other members of the family are also required to sign the documents as a precautionary measure even though legally they are bound by the actions of the Karta.

In the all above special types of customers account, the Bank needs to ensure that the account is opened and operated as per the customer mandate. Bank needs to ensure that they do not get involved between the personal disputes of the account holder.

Nomination:

Nomination is a facility that enables a deposit account holder(s) (individual or sole proprietor) or safe deposit locker holder(s) to nominate an individual, who can claim the proceeds of the deposit account(s) or contents of the safe deposit locker(s), post the demise of the original depositor(s) or locker holder(s).

The benefit of nomination is that in the event of death of an account holder(s) or locker holder(s), the Bank can release the account proceeds or contents of the locker to the nominee(s) without insisting upon a Succession Certificate, Letter of Administration or Court Order. The nominee holds the monies in the capacity of a Trustee on behalf of the legal heirs of the deceased account holder(s) or locker holder(s) and the Bank's liability is duly discharged on payment to the Nominee.

2.5. Opening of Accounts

As per the Know Your Customer (KYC) norms laid down by Reserve Bank of India (RBI), each bank should follow the guidelines and ensure that prospective account holder is identified before opening of account.

A. Opening of accounts and Form filling: Prospective customer should submit the following documents while opening the accounts:

- Account Opening form duly filled
- Photographs
- Photo identity document
- Address identity document

Standard list of documents required for different category of customers is provided below:

Documents that may be obtained from customers	Documents
Accounts of individuals - Proof of Identity	<ul style="list-style-type: none">• Passport• PAN card• Voter's Identity Card

Documents that may be obtained from customers	Documents
<p>- Proof of Address</p>	<ul style="list-style-type: none"> • Driving License • Job Card issued by NREGA duly signed by an officer of the State Govt. • The letter issued by the Unique Identification Authority of India (UIDAI) containing details of name, address and Aadhar number • Identity card (subject to the bank’s satisfaction) • Letter from a recognized public authority or public servant verifying the identity and residence of the customer to the satisfaction of bank <p>Any one of the documents from the above submitted as proof of identity which contains an address or any of the following:</p> <ul style="list-style-type: none"> • Telephone bill • Bank account statement • Letter from any recognized public authority • Electricity bill • Ration card • Letter from employer (subject to satisfaction of the bank) <p>A rent agreement indicating the address of the customer duly registered with State Government or similar registration authority.</p>
<p>Accounts of companies</p> <p>- Name of the company</p>	<ul style="list-style-type: none"> • Certificate of incorporation and Memorandum

Documents that may be obtained from customers	Documents
<ul style="list-style-type: none"> - Principal place of business -Mailing address of the company - Telephone/Fax Number 	<p data-bbox="692 300 1015 331">&Articles of Association</p> <ul style="list-style-type: none"> • Resolution of the Board of Directors to open an account and identification of those who have authority to operate the account • Power of Attorney granted to its managers, officers or employees to transact business on its behalf • Copy of PAN allotment letter • Copy of the telephone bill
<p data-bbox="213 860 619 927">Accounts of partnership firms</p> <ul style="list-style-type: none"> - Legal name - Address -Names of all partners and their addresses -Telephone numbers of the firm and partners 	<ul style="list-style-type: none"> • Registration certificate, if registered • Partnership deed • Power of Attorney granted to a partner or an employee of the firm to transact business on its behalf • Any officially valid document identifying the partners and the persons holding the Power of Attorney and their addresses • Telephone bill in the name of firm / partners
<p data-bbox="213 1532 619 1599">Accounts of trusts & foundations</p> <ul style="list-style-type: none"> - Names of trustees, settlers, beneficiaries and signatories - Names and addresses of the founder, the managers / directors and the beneficiaries - Telephone / fax numbers 	<ul style="list-style-type: none"> • Certificate of registration, if registered • Power of Attorney granted to transact business on its behalf • Any officially valid document to identify the trustees, settlers, beneficiaries and those holding Power of Attorney, founders / managers / directors

Documents that may be obtained from customers	Documents
	<p>and their addresses</p> <ul style="list-style-type: none"> • Resolution of the managing body of the foundation / association • Telephone bill
<p>Accounts of Proprietorship Concerns</p> <ul style="list-style-type: none"> - Proof of the name, - Address and - Activity of the concern 	<ul style="list-style-type: none"> • Registration certificate (in the case of a registered concern) • Certificate / license issued by the Municipal authorities under Shop & Establishment Act, • Sales and Income tax returns • CST / VAT certificate • Certificate / registration document issued by Sales Tax /Service Tax / Professional Tax authorities • License issued by the Registering authority like Certificate of Practice issued by Institute of Chartered Accountants of India, Institute of Cost Accountants of India, Institute of Company Secretaries of India, Indian Medical Council, Food and Drug Control Authorities, registration / licensing document issued in the name of the proprietary concern by the Central Government or State Government Authority / Department, etc. Banks may also accept IEC (Importer Exporter Code) issued to the proprietary concern by the office of DGFT as an identity document for opening of the bank account etc. • The complete Income Tax return (not just the

Documents that may be obtained from customers	Documents
	<p>acknowledgement) in the name of the sole proprietor where the firm's income is reflected duly authenticated / acknowledged by the Income Tax Authorities.</p> <ul style="list-style-type: none"> • Utility bills such as electricity, water, and landline telephone bills in the name of the proprietary concern. <p>Any two of the above documents would suffice. These documents should be in the name of the proprietary concern.</p>

The Unique customer identification number (UCIC Number) and the Account Number which are automatically generated by the system for the Current Accounts, S.B. Accounts and R.D. Accounts, must be written in the Passbook, Specimen Signature Card, Account Opening Forms and also the Account Opening Register which is specially maintained for the purpose to record the details of the accounts opened.

In view of the importance of credit discipline for reduction in Non-Performing Assets (NPAs) level of banks, banks should insist on a declaration from the account-holder about the credit facilities if any enjoyed with any other bank. The account-opening bank should ascertain all the details and should also inform the concerned lending bank(s).

Bank should obtain recent passport size photographs of the customers at the time of opening of new accounts and compared with the prospective customer / account holder to satisfy about the resemblance and then only accepted. In respect of Current and Savings Bank Accounts, one copy of the photograph each is to be affixed to the application form, the Passbook and the Specimen Signature Card.

B. Opening the Account in the Ledger and other Operational Procedures:

The computer system provides different menus for different types of transactions. There is a separate menu for opening accounts of different categories.

After filling up all the columns in the menu-driven account opening formats correctly, the system opens the account and allots the account number automatically. The allotted number has to be recorded manually in the Account opening form.

Depending upon the category of customer, the columns that may have to be filled up are: Name of the customer if individual, or names of account holders in joint accounts, name of the Proprietorship firm, or Association or Society or Company, Address for communications, Telephone numbers-landlines and mobile numbers, fax number, email ids, the names of persons who are authorised to operate the account, Numbers of Cheque leaves issued, Line of business, annual income, Income tax assessed or not, PAN, Aadhar Number if any, whether form 15 G / H obtained or not where applicable.

Then the initial cash deposit or cheque deposit can be accepted by the Teller for credit in to the account.

The operation in the account is subject to maintenance of certain minimum balance prescribed by the bank.

The Account number allotted by the System has to be manually written in the Application form, and the documents, and filed in serial order in a file. The account number has to be written in the Specimen Signature Card/s also. Then the Card/s has/have to be scanned and 'filed' in the system along with the file containing the account opening details. Then the Specimen Signature card/s has/have to be filed in the Current Account Specimen Signature Cards file.

C. Allotting UCIC (Unique Customer Identification Code):

Interest amount paid to a customer would be subject to deduction of tax @10 % by the bank and remitted to the Income Tax department, if the interest amount is equal to or more than Rs. 10,000 in a year and if the customer has not filed forms 15 G/H as the case may be.

So customers who have accounts in many branches of the same bank avoided payment of income tax. In order to plug this loophole, from this current year (April 2015-March '16) onwards, the interest earned by a depositor in all the branches of the same bank would be clubbed for deduction of tax at source. To facilitate this, RBI instructed all the banks in India to allot UCIC to each of its customers, so that data can be collected easily.

2.6. Cash Book, Pass Book & Bank Reconciliation Statement

We will now discuss the books of account maintained by a customer at his end and the statements given by the bank giving details of the transactions made by the customer.

A. Cash Book (of the customer):

- a. Cash Book** – All cash/bank transactions are entered in the cash book straightway and ledger accounts are prepared on the basis of such records. Hence, Cash Book is considered as a Subsidiary book. Cash book is a principal book since it serves as cash/bank account and book account, the balances of which are recorded in the trial balance via ledger directly. Cash book has debit and credit sides. All receipts are entered on the debit side and all payments are entered on the credit side. It is maintained under the Double entry system.

Balances in the cash book are taken directly to the trial balance.

b. Features of the Cash Book are:

- All cash receipts/deposits in bank and cash payments/payments from bank are entered chronologically in the cash book in the debit and credit sides respectively
- It never shows a credit balance in the cash columns
- It serves the functions of Journal also.

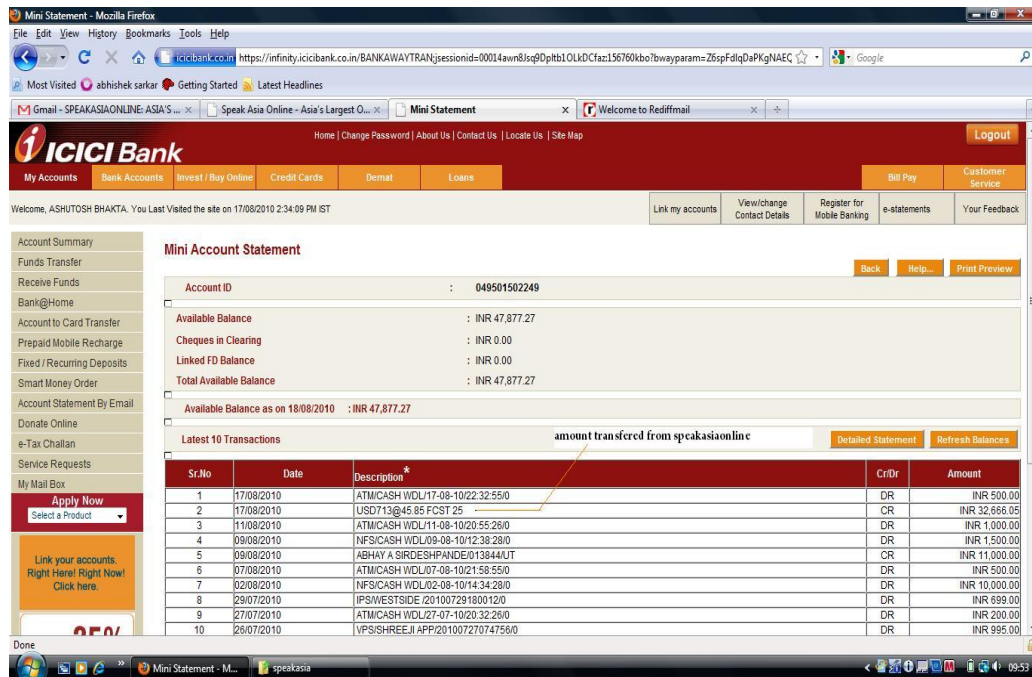
c. Objects or Need of Cash Book

- To find out the total cash receipts/deposits in bank and cash payments/payments from bank during a given period.
- To ascertain the balance of cash in hand and at bank at any time without actually counting cash and examining Bank passbook
- To verify the correctness of cash in hand and bank account.

d. Bank Statement: Bank statement or account statement is a summary of financial transactions which have occurred over a given period of time on a bank account held by a person or business with a financial institution.

Bank statements are typically printed on one or several pieces of paper and mailed directly to the account holder's address. Historically, bank statements were paper statements produced at monthly or quarterly intervals. Since the introduction of computers in banks in the 1960s, bank statements are generally produced monthly or as and when the customer makes a request.

Specimen of a statement of account as seen through the internet:



B. Passbook

A passbook or bankbook is a paper book used to record transactions undertaken in a deposit account. Traditionally, a passbook is used for accounts with a low transaction volume, such as a savings account. A customer who has an SB account at a branch of a bank can go to any branch of the same bank to get his passbook updated without charges.

Specimen of a Pass Book is as follows:

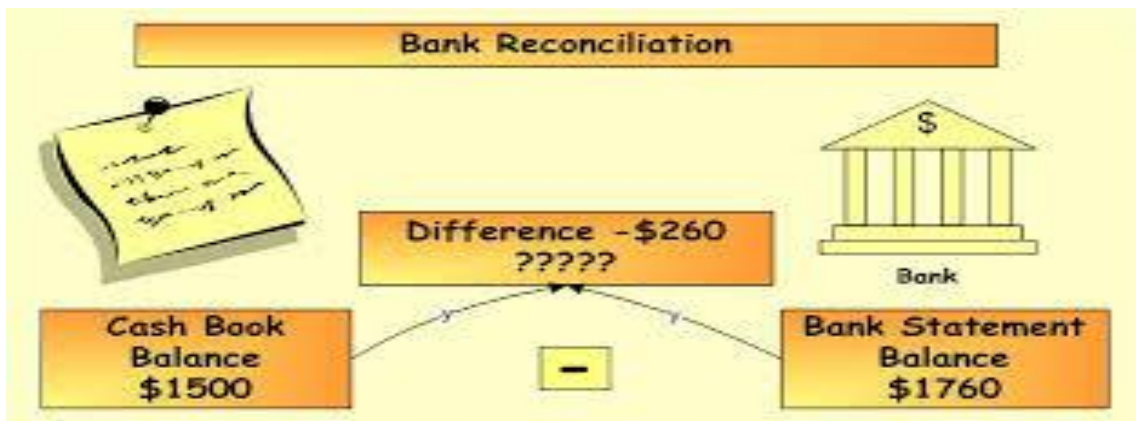
DATE	DESCRIPTION	WITHDRAWALS	DEPOSITS	BALANCE
03-10-16	ATMW	**21.25		**474.11
03-10-16	ATMF	**1.50		**472.61
03-10-20	DEBP	**2.99		**469.62
03-10-21	WEBP	**300.00		**169.62
03-10-22	ATMW	**100.00		**69.62
03-10-23	DEBP	**29.08		**40.54
03-10-24	DEBR		**2.99	**43.53
03-10-27	TELP	**6.77		**36.76
03-10-28	PYRL		**694.81	**731.57
03-10-30	WEBT		**50.00	**781.57

Please refer to the back cover for the list of common transaction codes.

Please verify your account activity regularly. If there is an error, notify the bank within 45 days.

For people who feel uneasy with telephone or online banking, the use of a passbook is an alternative to obtain, in real-time, the account activity without waiting for a bank statement.

C. Bank Reconciliation Statement



Introduction: A customer 'debits' bank account in his books when he deposits a cheque in the bank for collection or deposits cash. This is to know at his end how many cheques/how much of cash has been deposited in the bank. However, the bank's books will show the corresponding 'credit' in the customer's account for the cheque on collection, only when the cheque is processed, the proceeds are collected and credited to his account.

Similarly the moment a customer issues a cheque drawn on his bank, he 'credits' bank account in his account whereas the bank will show the same item under debits only when the cheque is cleared to it for payment and it is paid.

Thus, due to the differences in time of entering the entries at the customer's end and at the bank's end, the final balances as per the Pass Book and Cash book may not be the same as a point of time.

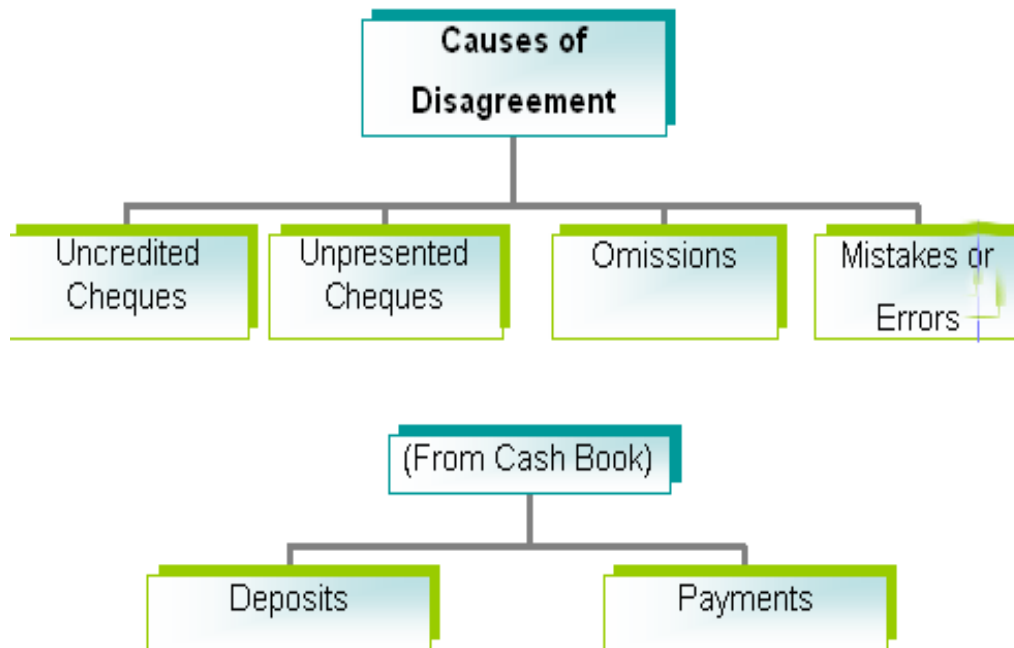
For this purpose a statement is prepared which is called 'Bank Reconciliation Statement'.

Meaning of Bank Reconciliation Statement: If the balance shown by the pass book/statement received from the bank is different from the balance shown by bank column of cash book of the firm, the business firm will identify the entries which cause such differences and make the necessary adjustments so as to bring both the balances at par. The entries thus made in the form of a statement are known as the Bank Reconciliation Statement.

The need for preparing Bank Reconciliation Statement (BRS): The BRS is prepared from time to time to check that all transactions relating to bank are properly recorded by the businessman in the bank column of the cashbook and by the bank in the customer's account. It helps in detecting, if there is any error (either in the firm or in the bank itself) in recording any transactions and ascertaining the correct bank balance on a particular date.

The importance of Bank Reconciliation statement is as follows: Bank reconciliation statement provides the necessary control mechanism to help the firm in discovering irregularities such as unauthorized bank withdrawals. So for an effective control mechanism to work, firms usually segregate the duties of persons responsible for accounting and authorizing the bank transactions and those responsible for preparing and monitoring bank reconciliation statements.

The reasons for difference between Cash book and the Bank Statements



- a. **Cheques issued by the firm but not yet presented for payment:** When cheques are issued by the firm, these are immediately entered on the credit side of the bank column of the cash book. Sometimes, receiving person may present these cheques to the bank for payment on some later date. The bank will debit the firm's account when these cheques are presented for payment. There is a time period between the issue of cheque and being presented in the bank for payment. This may cause difference in the balance of cashbook and pass book.
- b. **Cheques deposited into bank but not yet collected:** When cheques are deposited by the firm into bank account, the firm immediately enters it on the debit side of the bank column of cash book. It increases the bank balance as per the cash book. But, the bank credits the firm's account after these cheques are actually realised. A few days are taken in clearing of local cheques and in case of outstation cheques few more days are taken. This may cause the difference between cash book and pass book balance.
- c. **Amount directly deposited in the bank account:** Sometimes, the debtors or the customers deposit the money directly into the firm's bank account, but the firm gets the information only when it receives the bank statement. In this case, the bank credits the firm's account with the amount received but the same amount is not recorded in the cash book. As a result the balance in the cash book will be less than the balance shown in the Pass book.

- d. Bank Charges:** Bank charges in the form of fees or commission are charged from the customers' account from time to time for various services provided from the customers' account without the intimation to the customer. The firm records these charges after receiving the bank intimation or statement. Example of such deductions is Interest on overdraft balance, credit cards' fees, outstation cheques collection charges, etc. As a result, the balance of the cash book will be more than the balance of the pass book.
- e. Interest and dividend received by the bank directly for the account of the firm:** Sometimes, the interest on debentures or dividends on shares held by the account holder is directly deposited by the company through Electronic Clearing System (ECS). But the firm does not get the information till it receives the bank statement. As a consequence, the firm enters it in its cash book on a date later than the date it is recorded by the bank. As a result, the balance as per cash book and pass book will differ.
- f. Direct payments made by the bank on behalf of the customers:** Sometimes, bank makes certain payments on behalf of the customer as per standing instructions. Telephone bills, rent, insurance premium, taxes, etc. are some of the expenses. These expenses are directly paid by the bank and debited to the firm's account immediately after their payment but the firm will record the same on receiving information from the bank in the form of Pass Book or bank statement. As a result, the balance of the pass book is less than that of the balance shown in the bank column of the cash book.
- g. Dishonour of Cheques/Bill discounted:** If a cheque deposited by the firm or bill receivable discounted with the bank is dishonoured, the same is debited to firm's account by the bank. But the firm records the same when it receives the information from the bank. As a result, the balance as per cash book and that of pass book will differ.
- h. Errors committed in recording transactions by the firm:** There may be certain errors on the firm's side, e.g., omission or wrong recording of transactions relating to cheques deposited, cheques issued and wrong balancing etc. In this case, there would be a difference between the balances as per Cash Book and as per Pass Book.

- i. Errors committed in recording transactions by the Bank:** Sometimes, bank may also commit errors, e.g., omission or wrong recording of transactions relating to cheques deposited etc. As a result, the balance of the bank pass book and cashbook will not agree.

D. Sample Bank Reconciliation Statement of ABC LTD

Bank Reconciliation Statement as at 31 December 20XX

Balance as per Firm's Cash Book

Xxx

I: Entries passed in the Cash Book but not by the Bank:

Add:

Un-presented Cheques (Cheques issued as per Cash Book, But not yet presented to the bank for payment	Xxx
---	-----

Less:

Deposits in Transit (Cheques deposited in bank as per Cash Book but not yet collected and credited by the Bank)	(xxx)
Errors in Bank Statement (if any)	(xxx)

II: Entries passed by the Bank but not in the Cash Book

Add:

Direct Credits (By Debtors of the firm etc.)	Xxx
Interest on Deposit (Interest accrued on the Firm's deposits with the bank and credited by the bank)	Xxx

Less:

Bank Charges (like interest on overdrafts, Loans taken etc.)	(xxx)
Direct Debits (like Electricity, Telephone bills paid)	(xxx)
Standing Order (as per standing instructions	(xxx)

given by the firm to the bank for payments like Insurance premium, transfer to Recurring deposits etc.)

Errors in Cash Book (if any)	(xxx)
Balance as per corrected Cash Book	Xxx
This should be the same as the Bank Statement as all the adjustments have been made	Xxx

Note: In the above example, we have taken the firm’s Cash Book as the base and proceeded towards the Bank’s Statement. You can also start with the Bank’s Statement as the base and proceed towards the firm’s Cash book, in which case your approach should be to deduct the items which you added in the example shown above, and vice versa i.e. add the items which you deducted in the example shown above.

2.7. Summary:

- Normally Savings accounts for the individuals and Current accounts are for the Businesses. Savings gives interest on the balances held whereas current accounts do not get any interest.
- Know your customer (KYC) documents are required for opening accounts. KYC documents required vary based on the type of customer.
- Deposit accounts can be categorized under Demand (Savings& Current) and Term (Fixed Deposit and Recurring Deposits).
- Various types of customers can open account the Bank:
 - Individuals
 - Hindu Undivided Family (HUF)
 - Proprietorship Firm
 - Partnership Firm
 - Limited Company
 - Liquidator

- Clubs / Associations
- Trusts
- Corporate / Institutional Clients

- KYC documents for opening the account are
 - Photograph
 - Identity Document
 - Address Document

- The types of documents required for opening account varies for each category different person varies on the types of customer.

- Cash Book is the book of primary entry as all cash transactions are entered. A passbook acts as a ready reckoned of all transactions and is handy and compact.

- Bank reconciliation helps in identifying any errors on the side of the customer as well as Bank side and hence Bank reconciliation is done frequently.

Key words:

KYC – Know your customer

HUF – Hindu Undivided Family

BRS – Bank Reconciliation System

DD - Demand Draft

SB – Savings Bank

NPA – Non-Performing asset

Cid – Customer Identification Number

EGM – Extra ordinary General meeting

AML – Anti Money Laundering

CTL – Combating the Financing of Terrorism

BSBDA - Basic Savings Bank Deposit Account

PPF – Public Provident Fund

2.8. Self Test Questions:

I. Choose the correct option:

1. A deposit in which the interest rate can fluctuate based on the duration or time?
 - a) Fixed Deposit
 - b) Recurring Deposit
 - c) Flexi Deposit
 - d) Term Deposit

2. A Hindu minor having a natural guardian attains majority on completion of
 - a) 21 years
 - b) 18 years
 - c) 13 years
 - d) 13 years provided he has power of understanding

3. A nominee in the Bank account is the _____ on behalf of legal heirs.
 - a) Owner of asset
 - b) Trustee
 - c) Agent
 - d) Principal

4. An instruction by a customer to a bank to pay a specified amount of money on a specified date or dates to a specified payee is known as:
 - a) One time instruction
 - b) Recurring instruction
 - c) Standing Instruction

5. Banks generally don't pay interest on money deposited in which of the following account?
 - a) Savings account
 - b) Current account
 - c) Fixed deposit account
 - d) Overdraft Account

6. Basic KYC is
 - a) Validating the Identity, Address and Signature of a prospective customer
 - b) Ensuring that the prospective customer is physically fit
 - c) Ensuring that the prospective customer is a literate person
 - d) Ensuring that the prospective customer can read and write

7. How many people can be nominated through the Bank Nomination facility?
 - a) 1
 - b) 2
 - c) 3
 - d) 4

8. This type of account allows unlimited deposits / withdrawals
 - a) Savings Account
 - b) Current Account
 - c) Recurring Deposit
 - d) Term Deposit

9. What are the KYC documents required by the Bank?
 - a) Photograph
 - b) Identity Proof
 - c) Address Proof
 - d) All of the Above

10. What is the full form of KYC?
 - a) Know your cadet
 - b) Know your customer
 - c) Know your correspondent

11. When a joint account is operated by any one of the holder independently, mode of operation of the account is
 - a) Jointly
 - b) Either or Survivor

- c) Former or Survivor
- d) Latter or Survivor

12. When any FDR is lost by a customer of a bank, what document is executed?

- a) guarantee bond
- b) government bond
- c) promissory bond
- d) indemnity bond

13. Which product is normally costliest from customer point of view?

- a) Home Loan
- b) Personal Loan
- c) Credit Card loan

Answers: 1- c, 2 – b, 3 – b, 4 – c, 5- b, 6 – a, 7 – a, 8 – b, 9 – d, 10 – b, 11- b, 12 – d, 13 – d.

II. Fill in the blanks:

1. ____ can be returned for insufficient funds in the account
2. _____ is a valid form of proof of identity of a customer.
3. Banker Lockers are not used for _____
4. Change in the mode of operations of a joint account requires mandate from _____.
5. DICGC insures each depositor up to Rs _____
6. Garnishee Order is issued by a _____.
7. Interest on savings bank accounts is paid on _____ closing balance in the account
8. Tallying all debits / credits for the cheque / cash processed is known as _____

Answers: 1 – Cheque, 2 - Passport or Aadhar card or driving license or voter identity card. 3 – keeping guns, drugs and explosives, 4 – All account holders, 5 – Rs 100,000.00, 6 - court, 7 – Daily, 8 – reconciliation.

III. Match the following:

- | | |
|-----------------------------|--|
| 1. Demand Deposits Accounts | To finance pre-planned future purposes |
| 2. DICGC | Age of 10 years |
| 3. Term Deposits Accounts | Major at 21 years |
| 4. FD Penalty Interest | Current / Savings Account |
| 5. Recurring Deposit | Insurances upto the limit of Rs. 100,000 of each depositor in a bank |
| 6. Court Appointed Guardian | 1 % |
| 7. Junior Accounts | Fixed / Recurring Deposits |

Answers: 1 – 4, 2 – 5, 3 – 7, 4 – 6, 5 -1, 6 – 3, 7 – 2

IV. True / False:

1. Currents accounts requires minimum balances to be maintained
2. Interest on savings bank account is compound interest
3. In case of recurring account, the loan can be given up to 75% of the amount standing to the credit of the account holder.
4. Illiterate person is a special type of customer for the Bank
5. KYC is mandated by SEBI
6. Account statement can be made available by the Bank as and when required
7. BRS is carried out on yearly basis only

Answers: 1 – True, 2 – False, 3- True, 4 – True, 5 – False, 6 – True, 7 – False

V. Answer the following briefly

1. What are the features of Current accounts?
2. What are the features of Savings accounts?
3. Explain the factors affecting the rate of interest?
4. What are the advantages of recurring deposits?
5. Who are the special types of customers of a Bank?
6. What are the advantages of Joint accounts?

VI. Answer in detail:

1. What is difference between Demand Deposits and Time Deposits?
2. What is difference between Savings Account and Current Account?
3. What is difference between Savings Account and Term Deposit Account?
4. What is difference between Recurring Account and Term Deposit Account?
5. Explain how Minor's can open his account?
6. What are the documents required for opening a Partnership account?
7. What are the documents required for opening a Company's account?
8. What are the documents required for opening a Trust's account?
9. What is the need of cash book?
10. What is the use of petty cash book?
11. What is the need of Bank statement?
12. What are the advantages of Pass book?
13. What are the needs of Bank reconciliation?
14. What are the reasons for discrepancy between Cash book and Pass Book?
15. How to prepare the Bank reconciliation statement?

VII. Activities:

1. Interview customers of different banks to see their satisfaction level and make them fill the questionnaire?
2. Solve in the class a sample Bank reconciliation problem?

Learning Objective – Unit 3

LOCATION Classroom Or Banks	DURATION – 20 HOURS			
	SESSION –I CREDIT CARD AND DEBIT CARD			
	Learning Outcome	Knowledge Evaluation	Performance Evaluation	Teaching and Training Method
	Understand meaning and features of Credit card Debit card	Meaning of Credit Card and Debit card Features of Credit and Debit Card Difference between Debit and Credit Card	Explain the meaning of debit card and credit card List out differences between Debit Card and Credit Card Study of Characteristics of Credit and Debit Card	Interactive lecture - Discussion on the concept of Debit and Credit Card Activity –List banks which issue Credit and Debit Cards. Paste Debit Card and Credit Card
	SESSION –II ATM(AUTOMATED TELLER MACHINE)			
	Understanding the concept of ATM	Meaning of ATM Purpose of ATM Features of ATM Evolution of ATM	Explain the need of ATM Describe the core concept of ATM Identify the key features of ATM	Interactive lecture – Discussion on concept of ATM Activity –Visit a bank and study the modus operandi of ATM
	SESSION –III CORE BANKING			
	Evaluating the characteristics and meaning of Core Banking Solution (CBS).	Introduction of Core Banking Solution(CBS Study of key features of Core Banking Demonstrate the tasks of banks under CBS through examples.	Evaluate the task of Banks under CBS. Enlist the features of core Banking Examples to identify the scheme of core Banking	Interactive lecture on concept of Core Banks Activity -Visit a bank and discuss with their manager the concept of core banking
	SESSION- IV STANDING INSTRUCTION			
	To evaluate the meaning and types of standing Instructions	Listing of various standing instruction issued to banks by customers. Enumerate the features of standing instructions Procedure of giving Standard Instruction to bank.	Describe the types of Standing Instruction issued by customer to its bank Analyze the features of standing instruction	Interactive lecture on issuing of standing instruction to banks. Activity –Prepare a report on how a commercial bank can take standing Instruction from customer.

UNIT 3

UTILITY SERVICE OF BANKING

OBJECTIVES

After going through this unit, you will be able to:

- Explain what are Debit / Credit cards and differences between them
- List the advantages of ATMs
- Summarise the features of Core Banking
- Understand what are standing instructions and their uses

STRUCTURE

- 3.1. Credit Cards & Debit Cards
- 3.2. Automated Teller Machines (ATMS)
- 3.3. Core Banking
- 3.4. Standing Instructions
- 3.5. Summary
- 3.6. Practice Questions

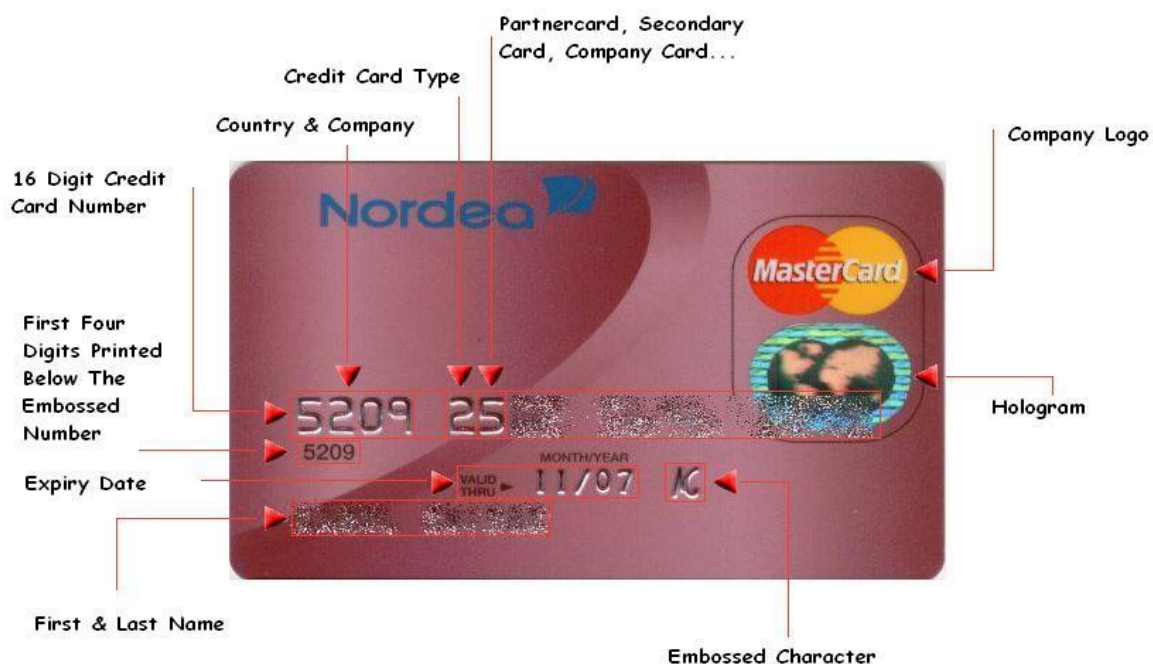
3.1. Credit Cards & Debit Cards

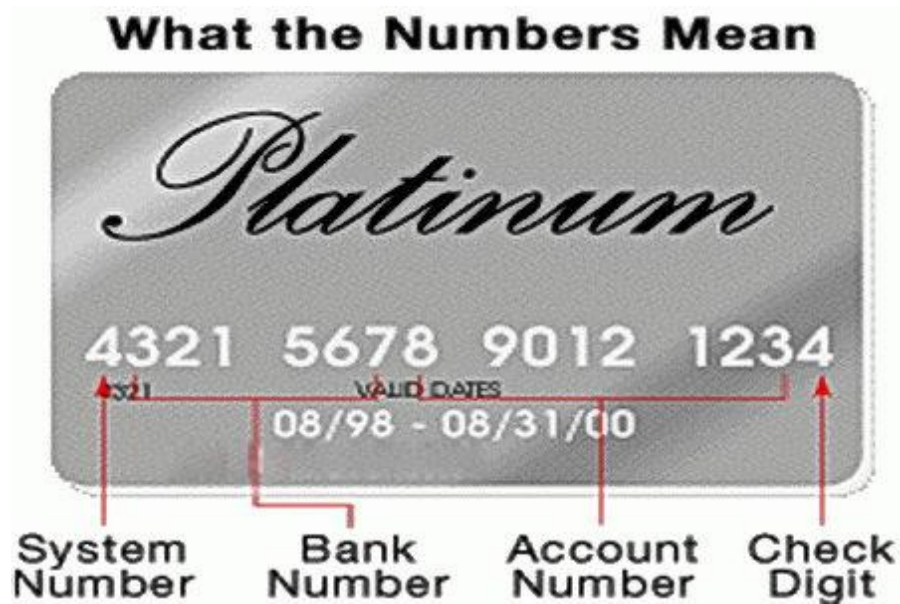
Bank is a financial institution that acts as an intermediary that accepts deposits and channels those deposits into lending activities, either directly by lending to the needy borrowers or indirectly by investing in securities. Thus a bank intermediates between customers who have capital surpluses and customers who have capital deficits. Banks offer many more other services (apart from their basic business) some of which are explained below.

A. Credit cards:

A Credit Card is a plastic card with magnetic strip issued by a bank or finance company giving the holder an option to borrow funds, usually at the point of sale. The Issuer creates a Revolving Credit account (or a line of credit) in the name of the holder to enable the holder to make credit purchases or withdraw cash. Credit card issuers charge interest for payments delayed beyond the due dates. Interest usually begins after the due date for payment and borrowing limits are pre-set according to the individual's credit rating.

Credit cards have higher interest rates (around 34-36 % per year) than most consumer loans or lines of credit. Because of their wide spread acceptance, credit cards are one of the most popular forms of payment for consumer goods and services in the world.





The numbers found on credit cards have a certain amount of internal structure, and share a common numbering scheme.

The card number's prefix, called the Bank Identification Number, is the sequence of digits at the beginning of the number that determine the bank to which a credit card number belongs.

- This is the first six digits for MasterCard and Visa cards.
- The next nine digits are the individual account number, and
- The final digit is a validity check code.

In addition to the main credit card number, credit cards also carry issue and expiration dates (given to the nearest month), as well as extra codes such as issue numbers and security codes. Not all credit cards have the same sets of extra codes nor do they use the same number of digits.

The credit card issuer issues a credit card to a customer at the time or after an account has been approved by the credit provider, which need not be the same entity as the card issuer. Then the cardholders uses the credit card it to make purchases at merchants accepting that card. When a purchase is made, the cardholder agrees to pay the card issuer. The cardholder indicates consent to pay by signing a receipt with a record of the card details and indicating the amount to be paid or by entering a personal identification number (PIN).

Electronic verification systems allow merchants to verify in a few seconds that the card is valid and the cardholder has sufficient credit to cover the purchase, allowing the verification

to happen at time of purchase. The verification is performed using a credit card payment terminal or point-of-sale (POS) system with a communications link to the merchant's acquiring bank. Data from the card is obtained from a magnetic stripe or chip on the card.

B. Debit Cards:

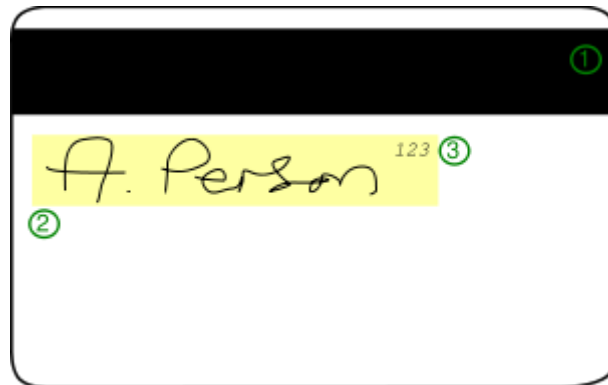
A debit card deducts money directly from the consumer's bank account to pay for the purchases made by him. Debit cards eliminate the need to carry cash or physical cheques to make purchases. In addition, debit cards; offer the convenience of credit cards and the same consumer protections when they are issued by major payment processors like Visa or MasterCard. Unlike credit cards, they do not allow the user to go into debt, except perhaps for small negative balances that might be incurred if the account holder has signed up for an overdraft. However, debit cards usually have daily purchase limits. Thus it may not be possible to make large purchases with a debit card on a single day.



An example of the front of a typical debit card:

1. Issuing bank logo
2. EMV chip (optional and may depend on the issuing institution or bank)
3. Hologram (in some cards it's located at the back especially in most MasterCard)
4. Card number (may vary in length but mostly 16-digits with unique last 4 digits. However in dinner cases such as Discover, Diner's Club, UnionPay & American Express it has a unique 15-digit card number)

5. Card brand logo
6. Expiration date
7. Cardholder's name



An example of the reverse side of a typical debit card:

1. Magnetic stripe
2. Signature strip panel
3. Card Security Code

Debit cards also allow instant withdrawal of cash, acting as the ATM card for withdrawing cash. Merchants may also offer cash back facilities to customers, where a customer can withdraw cash along with their purchase.

Usage of Debit card is like the Credit card by swiping the same at the Point of Sale (POS) terminal.

C. Differences between Credit and Debit cards:

a. Credit Card

- Borrowing money from a bank or financial institution. (spending "other's" money)
- Need not be connected to any bank account
- Pay additional interest drawn on the amount borrowed
- Limit: Credit line

b. Debit Card

- Funds are debited to the money that you have in your Bank account. (Spending your "own" money)
- Needs a bank account
- No interest is to be paid
- Limit: Equals your account balance / limit

3.2. Automated Teller Machines (ATMS)

ATMs are primarily computer machines to securely store / dispense bank notes. ATM is a preferred self-service channel available to cardholders for carrying on cash transactions.

The services available include payment of utility bills, topping up of mobile phones, reloading prepaid cards, etc. Other services such as payment of government benefits, entitlements, or micro loans require the disbursement of cash.

- ATMs are open 24/7 – customers do not have to visit their branch for withdrawing cash, up to certain limits.
- Cash withdrawals have minimum and maximum limits per day, set by the card issuing banks.

Convenience to banks – since they reduce their cost of branch-operation (cost of servicing a customer's transaction in the branch premises is about 5-6 times costlier than the cost of a transaction through an ATM).

ATM is a computerized machine that provides the customers of banks the facility of accessing their account for dispensing cash and to carry out other financial & non-financial transactions without the need to actually visit their bank branch.

A. Functions & uses of ATMs

- 24-hour access to cash
- Ability to view Account Balances & Mini-statements
- Order a Cheque Book / Account Statement
- Transfer Funds between accounts
- Refill your Prepaid card or prepaid phone accounts
- Pay your utility bills like Electricity bills, post-paid mobile bills
- Deposit cash or cheques
- Change your PIN
- Learn about other products

B. Customer Complaints Management for ATM transactions

- As per the RBI instructions banks have been mandated to resolve customer complaints by re-crediting the customer's account within 7 working days from the date of complaint in the case of a failed ATM transaction.
- Effective from July 1, 2011, banks have to pay customers Rs. 100/- per day as penalty for delays beyond 7 working days. If the complaint is not lodged within 30 days of transaction, the customer is not entitled for any compensation for delay in resolving his / her complaint.
- If the bank does not redress the complaint within the stipulated time, the customer can make a complaint to the local Banking Ombudsman.

C. Evolution of ATMs

The ATM was invented by Scot John Shepherd-Barron.

The world's first ATM was installed in a branch of Barclays in the northern London borough of Enfield, Middlesex, in 1967.

A mechanical cash dispenser was developed and built by Luther George Simjian and installed in 1939 in New York City by the City Bank of New York.

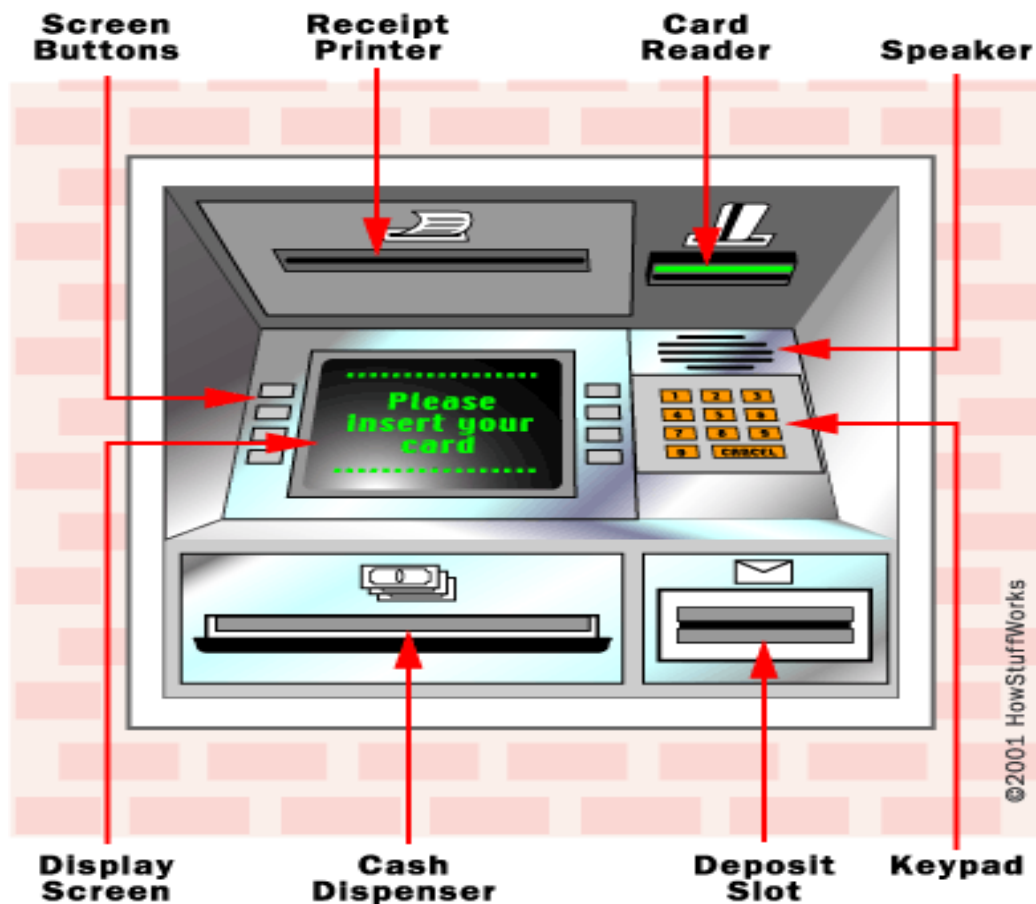
The first person to use the machine was Reg Varney of "On the Buses" fame, a British Television programme from the 1960s.

The idea of a PIN stored on the card was developed by the British engineer John Rose in 1965.

The modern, networked ATM was invented in Dallas, Texas, by Don Wetzel in 1968. Notable historical models of ATMs include the IBM 3624 and 473x series, Diebold 10xx and TABS 9000 series, and NCR 5xxx series.

The first ATM started functioning in India in the late 1980s.

D. Structure of ATMs



The cards issued by banks in India may be used at any bank ATM within India. However the savings bank account holders can transact a limited number of transactions free at other

banks ATMs in a month - financial and non-financial, beyond which the customer will be charged by his / her bank.

How to Use the ATM: Using the ATM is explained in seven steps below:

Step 1: Insert your card into the ATM machine with the side that has the arrow going in first.

Step 2: Enter your pin when prompted by the machine then press proceed button.

Step 3: Select the “withdrawal” option by pressing the button next to it when prompted by the machine.

Step 4: Select your type of account “Current or Savings” option by pressing the button next to it when prompted by the machine.

Step 5: Select the amount you want by pressing the button next to it when prompted by the machine.

Step 6: The machine will request if you want a receipt for the transaction? Proceed with the desired by pressing either the Yes or No button.

Step 7: Once the transaction is completed, the machine will.....

- Dispense the amount to you.
- Dispense the receipt on the amount (If you had selected the Yes button in Step 6).
- Release your ATM Card.

3.3. Core Banking

Definition: Core banking is a banking service provided by a group of networked bank branches where customers may access their bank account and perform basic transactions from any of the member branch offices.

Core banking is often associated with retail banking and many banks treat the retail customers as their core banking customers. Businesses are usually managed via the Corporate banking division of the institution. Core banking covers basic depositing and lending of money. The branches of a bank are networked with each other. Customers may undertake

normal banking business with any branch, not necessarily at the branch where his account is maintained (it is called HOME branch). For example, cheques up to certain amounts may be encashed at any branch of the same bank. Pass book also may be updated at any branch. Similarly other services may be undertaken at any of the Core Banking enabled branch of the same bank.

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

The core banking services rely heavily on computer and network technology to allow a bank to centralise its record keeping and allow access from any location. It has been the development of banking software has allowed core banking solutions to be developed.

Features of core banking include:

- Making and servicing loans.
- Opening new accounts.
- Processing cash deposits and withdrawals.
- Processing payments and cheques.
- Calculating interest.
- Customer relationship management (CRM) activities.
- Managing customer accounts.
- Establishing criteria for minimum balances, interest rates, number of withdrawals allowed and so on.
- Establishing interest rates.
- Maintaining records for all the bank's transactions.

CBS provides the following benefits:

- Improves operational efficiency and reduces cost of operations:
- Improves customer service
- Complies with Anti Money Laundering (AML) / Know Your Customer (KYC) requirements:
- Integrates with electronic payment systems such as Anytime and Anywhere banking (online mediums / SMS)

- Standardised, simple and automated processes
- Increase in quality of the service provided to the customers
- Timely and accurate information for management decision making
- Strong audit and internal controls
- Bring down the cost of transaction and thereby improving operational efficiency
- Paving way for new value added services thereby generating additional revenue for the Bank

CBS thus provides all the features for efficiently running and managing the Bank.

3.4. Standing Instructions

A standing order (or a standing instruction) is an instruction which a bank account holder ("the payer") gives to his or her bank to pay a set amount at regular intervals to another's ("the payee's") account (also called Banker's order)

Various Standing Instructions which can be given: They are typically used to pay rent, mortgage or other fixed regular payments. Because the amounts paid are fixed, a standing order is not usually suitable for paying variable bills such as credit cards or gas and electricity bills.

The Standing Instructions feature facilitates periodic scheduled payments for funds transfer, third party payment, and RTGS/NEFT/State Bank Group transactions.

It also allows Funds transfer, Third Party transfer, Inter Bank Transfer to other bank accounts, or state bank group accounts.

Accounts on which a customer can register standing instructions: You can register standing instructions on your savings and current accounts. You can register multiple standing instructions on different accounts and at different frequencies. You will receive an SMS when a standing instruction is executed and your account is debited.

Procedure for Providing Standing Instruction (SI) to the Bank:

Hard copy: Banks have standard SI forms. The form needs to be filled in for the SI to be provided to the Bank. The form needs to be signed by all the account holders. The signed form is to be submitted to the Bank. The Bank will verify the signatures of the account

holders and update the Bank CBS system. The input done is authorised by the officer to ensure accuracy of the inputted details.

Online: Customers who have online access can provide instructions using Net Banking. The person uses the SI screen and records the beneficiary details viz. Beneficiary Name, His Bank accounts, IFSC code, Amount to be paid, frequency of payment and other relevant details. Once inputted, the SI gets activated and the customer is informed about the successful payment by SMS on the registered mobile number with the Bank.

Specimen of Standing Order:

Axis Bank Limited

STANDING INSTRUCTION REQUEST

Date: _____

From

To:

AXIS Bank Ltd.,

Ref: Execution of Standing Instruction

Dear Sir,

This is in reference to the _____ loan of INR _____

(Rupees *(in words)* _____)

sanctioned to me by Retail Assets Centre, _____. My loan account No. is and

Customer ID is _____.

I, therefore, request you to please accept this authorizing mandate to debit my Axis Bank savings account number from _____ on due date towards the recovery of repayment of dues/EMI, over the entire tenure of loan, as per the terms and conditions of loan agreement schedule or as per the revised instructions in line with the Bank's policy.

I undertake to maintain sufficient balances to cover the loan repayment dues (& charges, if any) on the stipulated due dates. I also understand that failure to repay the dues through this standing instruction shall be treated as a default in repayment of dues and all

charges/penalties, as covered by the agreement, will hold good towards the non-payment of obligations.

Please treat this as an irrevocable communication as an authorization to debit the said savings bank account every month with the amount due towards the repayment of my loan. In the event of above account getting closed / transferred for any reason, I/We will intimate to the Bank the new account opened with the bank to debit the loan repayment amount/s. Further, I/We also undertake to submit afresh set of mandate in regards to the same.

I also understand and accept that the Bank will have the right to set-off, without prior intimation to me, the available balances in the designated account for recovery of overdue installments and/or charges (if any) in the loan account.

Thanking you,

Yours truly, Signature and account number verified

For Axis Bank Ltd

Customer Name (accounts holder/s): Name: _____

Employee Id: _____

Employee Signature: _____

3.5. Summary:

- Debit card acts as replacement for hard currency whereas Credit card is short term revolving type of loan provided by the Bank. Limit of Debit holders is the balance in the Bank account linked whereas credit card holder limit is assigned by the Bank.
- ATM machine replaces the Bank teller and allows the customer to Bank with the 24 X 7, 365 days and provides normal banking facility.
- Core banking solution has revolutionised the Banking system in India by providing Anytime Anywhere banking facility and has helped Banks to increase efficiency and productivity.
- Standing instructions helps in reducing paper work and time for repeated transactions on regular period viz. rent, EMI, Card payment.

Key words:

EMI – Equated Monthly Instalment

CIB - Credit Information Bureau

NPA – Non Performing Asset

CIBIL - Credit Information Bureau of India

CIR - Credit Information Reports

PCI SSC - Payment Card Industry Security Standards Council

PIN - Personal Identification Number

AML - Anti Money Laundering

KYC - Know Your Customer

NEFT - National Electronic Fund Transfer

RTGS - Real Time Gross Settlement

CORE - Centralised On-line Real Time Environment

ECS - Electronic Clearing Service

CBS - Core Banking Solution

SI - Standing Instruction

BPM - Business Process Management

ECM - Enterprise Change Management

3.6. Self Test Questions

I. Choose the correct option:

1. In which of the following, Bank account is not required to be opened.
 - a) Credit card
 - b) Debit Card
 - c) None of the above
 - d) Both of the above

2. Due to the implementation of the CBS, Bank Customers can access their account at any branch of the Bank
 - a) True
 - b) False

3. Which of the following is a short term loan to the customer?
 - a) Credit card
 - b) Debit card
 - c) Both of the above
 - d) None of the above

4. Standing instructions can be used for ____
 - a) One time payment
 - b) Repeated payments at regular period
 - c) Both of the above
 - d) None of the above

5. Full form of ATM is _____.
 - a) Automated Teller Machine
 - b) Automatic Teller Machine
 - c) All Time Money
 - d) Any Time Money

6. In case of failed ATM transaction, RBI has mandated Banks to resolve customer complaints within ____ days

- a) 1
- b) 2
- c) 7
- d) 15

7. Which card is also known as Check cards?

- a) Debit Card
- b) Credit card
- c) Both of the above
- d) None of the above

Answers: 1 – a, 2 a, 3 –a, 4 –b, 5 –a, 6 –c, 7 –d

II. Fill in the blanks:

- 1. Full form of PIN in cards is known as _____
- 2. Credit card issuer charge ____ for delayed payment
- 3. Standing instructions are known as ____ order

Answers: 1 – Personal Identification Number, 2 – Interest, 4 – Banker’s

III. Match the following:

- | | |
|--------------------------|---------------------------------------|
| 1. Credit Card | Online payment for the purchases made |
| 2. ATMs | Real Time payment |
| 3. Standing Instructions | 24 X 7 Access to Cash |
| 4. Debit Card | Revolving Loan |
| 5. RTGS | Payment of Mortgage |

Answers: 1 - 4, 2 – 3, 3 – 5, 4 – 1, 5 – 2

IV. True or False:

1. Debit card charges higher interest rate than credit card.
2. PIN is used only in ATM card
3. CBS allows customers to access normal banking facility at any branch
4. Standing instruction can be used for onetime payment
5. CBS implementation has increase cost for the Banks

Answers: 1 - False, 2 – False, 3 – True, 4 – False, 5 – False

V. Answer the following briefly:

1. Explain the numbering system of the Credit Card?
2. What are the advantages of ATMs?
3. What is the definition of Core banking?
4. Explain what is standing instruction?
5. Explain the details of the features on the front of the Debit card?

VI. Answer in detail:

1. Differentiate between Credit Card and Debit card?
2. What are the services provided on an ATM?
3. Explain how implementation of CBS has helps the Banks?
4. How is Standing Instruction useful to the customers?
- 5.

VII. Activities:

1. Prepare a chart showing comparison of the credit card of different types of Banks covering cost, limits, overdraw charges, services etc.
2. Identify the features of the CBS operations.

Learning Objective – Unit IV

LOCATION	DURATION-20 HOURS			
CLASSROOM OR INSURANCE ORGANISATION OR NEIGHBOURHOOD	SESSION-1 CONCEPT OF INSURANCE			
	Learning Outcome	Knowledge Evaluation	Performance Evaluation	Teaching and Training Method
	Identifying the meaning, nature, benefits and features of Insurance	<ol style="list-style-type: none"> 1. Basic concept of Insurance 2. Discussion on advantages of insurance to the individuals and business 3. Enumerate the features of Insurance 	<ol style="list-style-type: none"> 1. Give a brief introduction of Insurance 2. Explain Insurance as per financial sense and legal sense 3. Evaluate its benefits 4. Discuss in detail the key features of Insurance. 5. Who all can be covered under Insurance? 	Interactive lecture on the concept of Insurance, nature and advantages Activity- Discussion through case studies to highlight the benefits of Insurance
	SESSION -2 NEED FOR INSURANCE			
To understand the importance and functions of Insurance.	<ol style="list-style-type: none"> 1. Explanation of need of Insurance in our lives 2. Describing and evaluating the functions of Insurance. <ul style="list-style-type: none"> ➤ Diffusion of risk ➤ Providing Protection ➤ Encourage saving. ➤ Prevention of losses ➤ Promotion of efficiency ➤ Providing of funds for investment 	<ol style="list-style-type: none"> 1. Enumerate the various functions of Insurance 2. Identify the need of taking Insurance. 	Interactive lecture- On Importance of Insurance detailing its functions Activity – Prepare a report by visiting 5 neighbors and fill up a Questionnaire regarding their insurance types and reason.	
SESSION – 3 DISTINCTION BETWEEN LIFE AND NON-LIFE INSURANCE				

	<p>Enlisting the difference between Life Insurance and Non-Life Insurance</p>	<ol style="list-style-type: none"> 1. Meaning of Life Insurance 2. Meaning of Non-Life Insurance 3. Enumerate the difference between Life Insurance and Non-Life Insurance 	<ol style="list-style-type: none"> 1. Explain the concept of Life Insurance and Non-Life Insurance 2. Distinguish between Life Insurance and Non-Life Insurance 	<p>Interactive lecture- On concept of Life Insurance and Non-Life Insurance</p> <p>Activity- To collect the Photocopies of various types of Life and Non-Life Insurance policies from neighborhood.</p>
--	---	---	---	---

UNIT IV

INTRODUCTION TO INSURANCE

OBJECTIVES

By the end of this module, you will be able to:

- Identify sources of risk
- State the implications of financial risk
- Describe how to use insurance to cover risk
- Identify the functions of insurance
- Describe the benefits of Insurance
- Understand difference between Life Insurance and General Insurance.

STRUCTURE

- 4.1. Risk
- 4.2. Financial Implications of Risk
- 4.3. Insurance --- Mechanism of Covering Risk
- 4.4. Functions of Insurance
- 4.5. Benefits of Insurance
- 4.6. Insurance Policy
- 4.7. Life vs General Insurance
- 4.8. Summary
- 4.9. Practice Questions

4.1 Risk

Risk is an integral part of life. It can be defined as a probability or unexpected threat that may result in damage or loss of property or injury to or death of a person

These may be due to occurrence of a negative event that may be caused due to internal factors or external factors.

For instance when one is driving down the road, one is open to the risk of meeting with an accident. One may take adequate precautions to avoid it, thereby reducing the probability to minimal for the happening of such an event, but under no circumstances can there be a surety that such an event will never happen.

4.2 Financial Implications of Risk

In the event of damage due to the happening of an untoward event there would be a financial loss apart from other damages associated with the same.

Such financial loss could occur in any of the following manner:

- a. In case the event results into the death of a person there could be a loss of source of earnings for his family especially if was the earning member.
- b. In case of injury to a person, resulting in temporary or permanent disability, the financial loss could be on account of both medical expenditure and loss of earning due to his disability.
- c. In case of loss or damage is caused to property, movable or immovable, the financial loss will be the amount required to replace or repair the said property, as the case may be.

Illustration

- a. Radheshaym is the sole earning member of the family. His age is 40. He is working as an electrician in a Private Firm earning a salary which is barely adequate to meet his monthly expenses .He has two children – a boy aged 15 and a girl aged 12. His wife is a homemaker. Unfortunately he was diagnosed for cancer which resulted in his death. Since he was the sole earning member the family would be deprived of earnings.

- b. In another case Ghanshyam met with a road accident. Though he was able to survive the accident but unfortunately loses his leg. This tragedy would lead to both medical expenditure on his treatment which may be a prolonged one and also his earning capacity may be substantially reduced because as a result of loss of limb he would be able to do limited jobs
- c. Now let us examine another situation. Mohan Singh runs a small enterprise of manufacturing some products. He has set up a factory by investing all his savings and taking loans from various sources. The manufacturing activity takes place in this factory. Unfortunately fire breaks up in his factory causing substantial damage to the plant and machinery and completely destroying the stocks. He would now require funds to repair or replace the damaged plant and machinery. He would also need funds to purchase raw materials to produce new stocks. All this would lead to financial loss. If he does not arrange for such funds he will not be able to revive his factory and his business will come to a standstill. His losses would further increase due to the loss of business till the time he is able to restart his factory.

What is common in all the above mentioned three cases? All three situations were unpredictable. But we run the risk of such kind of mishap happening anytime. There can be innumerable situations like these.

In all such situations one thing is common. There is a financial loss, apart from other losses, which can cause major distress to those who would be affected by such situations.

4.9. Insurance --- Mechanism of Covering Risk

Insurance is a mechanism by which the person exposed to the potential risk, arising out of the events beyond his control, transfers the financial loss; in part or in full to a third party. The party which transfers his potential loss is termed as the 'Insured' and the party which indemnifies or undertakes to compensate the insured of such potential loss is termed as 'Insurer'

The Insurer provides the coverage for the potential financial loss in lieu a fee or a consideration which is called the 'Premium'.

Thus Insurance is a special type of contract between the Insurer (the Insurance Company) and the Insured (the client) wherein:

- a. The client agrees to pay a premium to the Insurance Company. Such premium may be a fixed amount payable as a single payment or it may be paid as periodical payments. This will depend upon the type of Insurance and the terms thereof.
- b. In lieu of the payment of such premium the Insurance Company agrees to make some payment to the client or bear the costs of the client due to financial loss incurred on the occurrence of certain events.

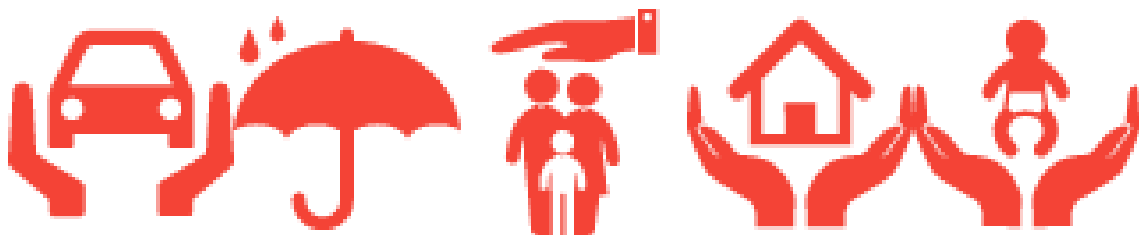
For example, in vehicle insurance, the Insurance Company pays the cost of repairing the vehicle if it is damaged in an accident.

Illustration:

We have seen in the illustrations given in the preceding paragraphs that due to unforeseen or unpredictable circumstances the effected parties suffer financial losses. This can really put them in distress.

Insurance is a mechanism by which the effected party is able to get a compensation for the financial loss that is suffered by him as a result of these unforeseen incidents.

In case either of the persons who suffered because of these incidents i.e. Radheshaym, Ghanshyam or Mohan Singh had taken an Insurance Policy from Insurance Company the compensation would have come from the Insurance Company. In such case Radheshaym or Mohan Singh would be the Insured and the Insurance Company that provided the insurance cover would be the Insurer. The insurance company(i.e. the insurer) would enter into a contract with the Insurer to compensate him for the financial loss that is suffered by him. The consideration under this contract of insurance would be the premium which the Insured would give to the Insurer i.e. the Insurance Company.



It is important to note here that the contract of insurance would provide for the circumstances in which the insurance company would be liable to compensate the financial loss. In case the circumstance or the event that resulted in the financial loss is not covered in the contract of Insurance and a loss has been caused the Insurance Company would not be liable to pay compensation.

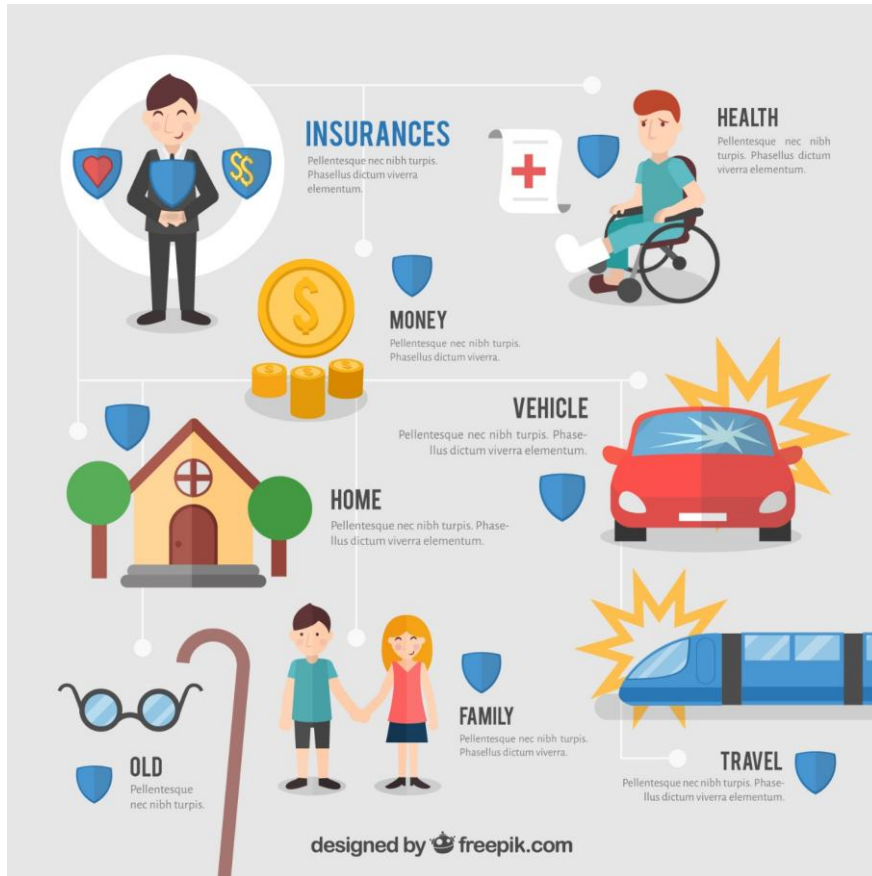
For instance if in case of a car the insurance contract between the car owner and the Insurance Company provides that the insurance cover would be provided in case of accident and if the car gets damaged due to a fire, the insurance company would not be liable to give any compensation for the loss incurred by the Insured.

4.9. Functions of Insurance

The basic function of Insurance is to reimburse the financial loss resulting from the occurrence of an event. This function is generally carried out by Insurance Company. The Insurance Company provides for various types of Insurances to different people in consideration of a premium. These premiums are collected by the Insurance Companies and are utilized to provide compensation to those who have suffered the loss.

In this context Insurance can also be defined as a collective device used to spread the loss caused by particular risk to one person over a number of people who are exposed to it and who agree to insure themselves against the risk.

Thus to, put it in simple words, the function of insurance is to spread the loss of an individual over a large number of persons who have agreed to cooperate with each other. The larger the number of such persons the easier is the process of distribution of loss. The mechanism of sharing the loss is by way of contributing to the loss is by payment of premium.



The functions of Insurance can be stated in two parts viz: (a) Primary Functions (b) Secondary Functions. These are described in detail as follows:

a. Primary Functions

i. Insurance provides certainty of payments for loss incurred

Insurance provides certainty of payment for the losses that may be caused due to occurrence of an uncertain event. For instance, a car meeting with an accident is uncertain. However, if the accident takes place it could result into damage. Again, the quantum of loss is uncertain. The only certainty in this case is that in case the car is insured against an accident and the car is damaged due to an accident, the Insured will certainly get compensation for the Loss from the Insurance Company. Insurance, by itself, cannot prevent the occurrence of an event. However, it can compensate for the loss incurred on the occurrence of an event.

ii. Risk Sharing

Insurance provides for sharing of financial loss. It is a method through which losses of some people are divided among large number of people. All those who are insured add up their premiums to compensate loss to those who have incurred the same.

The Insurance Company targets to get as many Insured as possible to take up the insurance and accordingly pay premium so that the number of persons who incur loss is much less than those who have taken the Insurance Policy.

Thus all those who have taken the insurance and have paid premium would share the loss of those few who have incurred the loss.

b. Secondary Functions of Insurance

Besides the primary functions, Insurance also performs the following functions:

i. Prevention of Loss

Insurers join hands with the Institutions which are engaged in prevention of loss of Society. These Institutions could be Health Organizations, Fire Brigade, educational institutions and other organizations which are engaged in prevention of loss of the masses from death, damage etc.

In case losses are contained the Insurance Company will have enough corpuses (i.e. funds) to pay compensation to those who have incurred losses and will accordingly reduce premium. This will increase profitability of both business organizations and individuals.

ii. Providing Investment Avenues

Insurance plays an important role in providing funds to the businesses, governments etc. The funds that are mobilized through premiums are invested in various financial instruments such as Government securities, corporate shares, bonds and also as loans.

Thus insurance helps in meeting the requirement of funds of all the issuers of these securities and those who borrow the funds .

iii. Improves Efficiency

Insurance provides security to the Insured and is an effective tool of increasing efficiency. Since the insured is not worried about the potential loss as knows that he would be compensated in case such loss is incurred, he would be free of all worries and would devote his time to the job or any other activity that he is involved in with full force. This will, hence, increase his efficiency.

4.9. Benefits of Insurance

Insurance serves many purposes and has many benefits for both individuals and businesses. Insurance policies are purchased or taken to provide protection against the potential or unexpected future losses.

The benefits or advantages of Insurance can be outlined as follows:

a. Peace of Mind

When the consumers take an insurance policy they can achieve peace of mind. They would have a comfort level if they know that in case of happening of an untoward incident; at least the financial loss incurred by them would be compensated.

b. Asset Protection

The objective of taking a policy in respect of a property or an asset is to protect the same. This would be applicable in respect of assets such as homes, vehicles, jewelry and other valuable tangible items.

In case an insurance policy is taken the Insurer will replace or repair these assets if they are damaged, lost or destroyed.

c. Physical Protection

Certain type of Insurance Policies is designated in such a manner that they protect the body.

In the event that a person is injured, disabled or otherwise physically harmed these insurances will compensate for those damages.

d. Income Protection

Certain Insurance policies are designed in such a manner that they protect an individual's ability to earn a living.

If for some reason the person is no longer able to continue with gainful employment these policies can be structured to replace a majority of lost income of the said person.

e. Lifestyle Protection

In the event of death of a person, his next of kin suffer the most especially if the person who died was the sole or the major income earner. In such a case a Life Insurance Policy would provide funds to the next of the kin who would be able to maintain partly, if not fully, the lifestyle or at least meet their basic needs.

4.9. Insurance Policy

As stated above Insurance is a contract between the Insured and the Insurer whereby the Insurer, in lieu of the payment of premium by the insured, agreed to compensate the loss incurred by the Insured on the occurrence on an event as provided in the said contract?

This contract of Insurance is contained in a document called 'Insurance Policy'. As we will see in the following sections there are various types of Insurance Policies. Whatsoever is the type of Insurance Policy it will consist of the following sections:

a. Declaration of Information

This section, generally, contains the following details:

- i. Details of the Insured i.e. his name, address etc. The Insured is also known as the Policy Holder.

- ii. Details of the Insurer i.e. the Insurance Company that is issuing the policy
- iii. The risk or the property that is covered
- iv. The policy limits i.e. the amount of insurance or the sum assured.
- v. The period of the policy
- vi. The amount of Premium

b. Definitions

This section defines the exact meaning of certain words and phrases used within the policy so that such terms are clearly understood by the Insured and there is no confusion or misinterpretation of the same.

c. Terms of Policy

This part of the Insurance Policy specifically describes the risks that are covered or the nature of coverage. This section generally summarizes the terms of contract between the parties.

d. Exclusions

This section provides or describes the circumstances in which the risk will not be covered in the policy. Thus under the circumstances provided in this section the compensation will not be payable by the Insurer.

For example under an automobile insurance policy one of the condition would be that the policy holder will not be entitled to receive compensation for an accident if the person who was driving the vehicle at the time of the accident was intoxicated i.e. was under the influence of alcohol.

e. Endorsements

Lastly many Insurance Policies end with the Endorsement section. Endorsements are those provisions or conditions which are specific to the policy.

Generally the other sections contain standard conditions. Since this contains certain conditions that are specific to the policy, they will have an overriding effect over the Standard Conditions.

This means that in case the standard conditions and the conditions and those in this section are contradictory to each other the conditions of this section will prevail over standard conditions.

4.9. Life vs General Insurance

There are two types of Insurance viz. Life Insurance and General Insurance (Non Life Insurance). The nuances of these two types of insurances are as follows:

a. Life Insurance

A Life Insurance Policy is a Contract between a person called Insured and an Insurance Company that is engaged in the business of providing Life Insurance cover in lieu of payments of premium.

Life Insurance policies are of two basic types:

i. Whole Life Policies

In whole life policies the assured amount is paid by the Insurance Company on the death of the insured person to his successors. The premium is required to be paid throughout the life of insured person.

ii. Endowment Policies

Such policies are for specified period only e.g. 10, 15, 20 years. The insured amount becomes payable to the insured on the expiry of such period. If in the meanwhile the insured person dies the amount is payable to his successors.

Thus the objective of life insurance is to provide financial security to the insured or to his family in case he dies.

b. General Insurance

Insurance Contracts that do not come under the ambit of Life Insurance are called General Insurance or Non Life Insurance Contracts.

Tangible Assets are prone to damage/loss which may be caused by fire, accident, theft etc. General Insurance is taken by the Insured to protect the assets from such potential damages. Thus the different types of General Insurance are fire, marine, vehicle, accident and other non life insurance.

As in the case of Life Insurance, General Insurance Products also come at a price in the form of a premium.

Examples:

- i. In the first case Radheshaym died as a due to cancer. Thus there is a loss of life. This is a case of Life Insurance. In case he had taken a Life Insurance Policy, his family would get the amount assured in the Life Insurance Policy after his death. This would to some extent cover the financial loss that would have been suffered by the family due to death of Radheshaym as he was the sole earning member.
- ii. In the second case Ghanshyam has suffered major injuries in the road accident. He has, in fact, become partially incapacitated. This is a case of Non Life Insurance or General Insurance. In case he had taken a Medical Insurance he would be compensated by the Insurance Company for his medical expenditure.
- iii. The third case is also a case of Non Life Insurance or General Insurance. In this case there is damage to the property or the assets of Mohan Singh. However there is no loss of life. Hence in this an appropriate cover of Insurance under the category of General Insurance would compensate the loss suffered by Mohan

In line with the above the comparative analysis of Life Insurance and General Insurance would be as follows:

Sr. No.	Parameter	Life Insurance	General Insurance
a.	Risk	The element of risk is the death of a person	The element of risk is the damage/ loss to a property or an asset.
b.	Tenure	Long Period	Comparatively shorter period not extending beyond the useful life of the asset.
c.	Beneficiary	In the event of death of the Insured the Beneficiary would be the Legal Heirs of the Insured. In case of Endowment Policy he himself will be the beneficiary if he survives till the maturity of the policy.	The beneficiary would generally be the Insured who would also be, in most cases, the owner of the asset
d.	Payment of Premium	Periodical Payments which could be quarterly, half yearly or yearly	Generally Lump Sum Payment at the time of taking up the Policy.

4.9. Summary

Risk is an integral part of Life. It can be defined as a probability or threat amounting to damage, injury, liability etc. Risk would entail financial loss in case the untoward event covered in the risk occurs.

Insurance is a mechanism by which the person exposed to potential risk arising out of events beyond his control transfers the financial loss in full or in part to a third party.

The person who transfers the risk is called the Insured and the person/organization that provides indemnity against risk is called Insurer.

The Insurer provides the coverage for the potential financial loss for a fee or a consideration which is called the 'Premium'. Insurance is of two types viz : Life Insurance and Non Life Insurance. Non Life Insurance is also referred to as General Insurance

4.9. Practice Questions

- a. Insurance is a mechanism by which the person exposed to the potential _____, arising out of the events beyond his control, transfers the financial loss; in part or in full to a _____ party.
- b. The person who takes the insurance is called _____ and the Organization that provides Insurance is called _____
- c. The consideration under Contract of Insurance is called _____.
- d. General Insurance Covers all types of risks including risk of loss of life. State whether this is: Correct / Incorrect
- e. Enumerate the benefits of Insurance.
- f. Enumerate the differences between Life Insurance and General Insurance.

Answer Keys: a – risk, third, b – Insured, Insurer, c – Premium

Learning Objective – Unit 5

LOCATION	DURATION-20 HOURS			
CLASSROOM OR INSURANCE ORGANISATION OR GENERAL PUBLIC	SESSION-1 PUBLIC SECTOR ORGANIZATIONS-LIC AND GIC AND ITS SUBSIDIARIES			
	Learning Outcome	Knowledge Evaluation	Performance Evaluation	Teaching and Training Method
	Elementary and Introductory knowledge of types of Public sector Insurance Organizations	1. List the type of Public Sector Organizations providing life Insurance and general insurance 2. Explain about their ownership, organization structure, control, present set up and regulatory act etc.	1. Evaluate the various types of Public Sector Organization 2. Enumerate the nature of Public Sector organization in Insurance Sector	Interactive lecture- On the core concept of Public Sector Insurance Organizations Activity – List various Public Sector Insurance Companies
SESSION -2 PRIVATE SECTOR COMPANIES WITH FOREIGN JOINT VENTURES				
Elementary knowledge of types of Insurance Organization under Private Sector	1. Role of Insurance Organizations under Private Sector and explain about their <ul style="list-style-type: none"> ➤ Present set up ➤ Ownership ➤ Organization Structure ➤ Control ➤ Government Regulations 	1. Enumerate the role of Private Sector Insurance Organization in today scenario 2. Discuss the role of private Sector Insurance Organization with reference to participation of foreign Insurance Companies and Indian Insurance Firms as joint venture.	Interactive lecture –On the basic Knowledge of Private sector Insurance Companies Activity 1. List 10 private Sector Insurance Organization covering Life Insurance 2. Enlist 10 private sector Insurance Companies Covering General Insurance and its subsidiaries 3. Five Companies with joint Venture with foreign sector	

UNIT 5

INSURANCE ORGANIZATION

OBJECTIVES

At the end of this Chapter you will be able to:

- Understand the History of Insurance in India
- Understand the role of Regulatory Authority in India for regulation of Insurance Sector
- Under the types of Companies engaged in conducting Insurance Business

STRUCTURE

UNIT 5 - INSURANCE ORGANIZATION

- 5.1. Brief history of Insurance in India
- 5.2. Regulatory Authority for Insurance Sector
- 5.3. Private Investment in Insurance Sector
- 5.4. Structure of Insurance Business in India
- 5.5. Summary
- 5.6. Practice Questions

5.1. Brief history of Insurance in India

- A) In 1938, with a view to protecting the interest of the Insurance public, the earlier legislation was consolidated and amended by the Insurance Act, 1938 with comprehensive provisions for effective control over the activities of insurers. The Insurance Amendment Act of 1950 abolished Principal Agencies. However, there were a large number of insurance companies and the level of competition was high. There were also allegations of unfair trade practices. The Government of India, therefore, decided to nationalize insurance business.
- B) An Ordinance was issued on 19th January, 1956 nationalizing the Life Insurance sector and Life Insurance Corporation came into existence in the same year. The LIC absorbed 154 Indian, 16 non-Indian insurers as also 75 provident societies—245 Indian and foreign insurers in all. The LIC had monopoly till the late 90s when the Insurance sector was reopened to the private sector. The **history of general insurance dates** back to the Industrial Revolution in the west and the consequent growth of sea-faring trade and commerce in the 17th century. It came to India as a legacy of British occupation. General Insurance in India has its roots in the establishment of Triton Insurance Company Ltd., in the year 1850 in Calcutta by the British. In 1907, the Indian Mercantile Insurance Ltd, was set up. This was the first company to transact all classes of general insurance business.

1957 saw the formation of the General Insurance Council, a wing of the Insurance Association of India. The General Insurance Council framed a code of conduct for ensuring fair conduct and sound business practices.

In 1968, the Insurance Act was amended to regulate investments and set minimum solvency margins. The Tariff Advisory Committee was also set up then.

- C) In 1972 with the passing of the General Insurance Business (Nationalization) Act, general insurance business was nationalized with effect from 1st January, 1973. 107 insurers were amalgamated and grouped into four companies, namely National Insurance Company Ltd., the New India Assurance Company Ltd., the Oriental Insurance Company Ltd and the United India Insurance Company Ltd. The General

Insurance Corporation of India was incorporated as a company in 1971 and it commence business on January 1st 1973.

D) Liberalization, Privatization and Globalization have opened new horizons in Insurance Industry. This has resulted in many international players setting up joint ventures in India with Indian Partners. Till recently the limit on Foreign Investment in Entities doing Insurance business was 26% which has recently (year 2015) been increased to 49%.

Thus this millennium has seen insurance come a full circle in a journey extending to nearly 200 years.

5.2. Regulatory Authority for Insurance Sector

The authority that regulates Insurance Sector in India at present is 'Insurance Regulatory and Development Authority of India (IRDA). It is an autonomous apex statutory body which regulates and develops Insurance Industry in India. It was constituted by a special Act of Parliament called Insurance Regulatory and Development Authority Act 1999.

The Mission Statement or the Objectives of IRDA are:

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

IRDA is a ten member body consisting of:

- a. A Chairman
- b. Five whole time members
- c. Four part time members

The specific functions of IRDA are as follows:

- a. To give permission to set up Insurance Companies in Private Sector.
- b. Regulating investment of funds by Insurance Companies.
- c. Regulating various agencies, persons etc concerning Insurance Companies.

5.3. Private Investment in Insurance Sector

The transfer of ownership, property or business from the Government to private sector is termed as Privatization.

Life Insurance Business was nationalized in the year 1956 and General Insurance Business was nationalized in the year 1972.

After nationalization Life Insurance Corporation had monopoly over Life Insurance Business. Similarly after nationalization, General Insurance Corporation was set up as a Holding Company. It had four subsidiaries: New India, Oriental, United India and National Insurance Companies.

Although Indian Economy started opening up both to private sector and to foreign investment in the year 1991, Insurance sector still remained the domain of Govt. of India.

The setting up of Insurance Regulatory & Development Authority (IRDA) in the year 1999 paved the way for liberalization and privatization of Insurance Sector to private sector.

IRDA has separated out Life, Non Life and Reinsurance business. Therefore a company has to have separate licenses for each line of business.

Recently in the year 2015 the limit of Foreign Investment in Insurance Business has been increased from 26% to 49% something that was under discussion for more than a decade.

Also global re insurance companies have been allowed to set up branches in India, something that was not allowed earlier.

5.4. Structure of Insurance Business in India

The insurance industry of India consists of 52 insurance companies of which 24 are in life insurance business and 28 are non-life insurers.

Among the life insurers, Life Insurance Corporation (LIC) is the sole public sector company. Apart from that, among the non-life insurers there are four public sector insurers. In addition to these, there is sole national re-insurer, namely, General Insurance Corporation of India.

5.4.1. Insurance Companies in Public Sector

The Insurance Companies in Public Sector are as follows:

- Life Insurance Corporation of India
- General Insurance Corporation of India
- National Insurance Company Limited.
- Oriental Insurance Company Limited
- New India Assurance Company Limited
- United India Insurance Company Limited

The details and structure of each of these Companies is as follows:

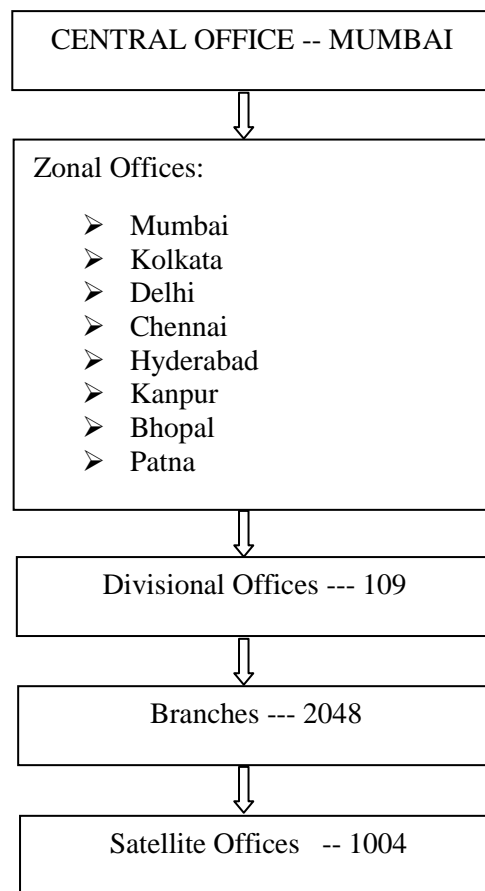
a. Life Insurance Corporation of India

Life Insurance Corporation of India, the sole Public Sector Company carrying out Life Insurance Business in India, was established by a special Act of Parliament called Life Insurance Corporation Act. This Act was enacted by the Parliament on the 19th of June 1956.

The main objective of setting up Life Insurance Corporation was to spread the message of Life Insurance in the country and to mobilize and channelize the savings of Public at large which could be used for nation building. It was aimed at spreading awareness of Life Insurance in rural areas so that maximum lives may be insured at a reasonable cost.

Organizational Structure of LIC (as on 31/3/2010)

Life Insurance Company has its Central Office in Mumbai and 8 Zonal Offices in different parts of the country. Under Zonal Offices are Divisional offices followed by Branches and satellite offices. LIC also has three branches in territories outside India. The organizational structure of LIC in India is depicted in the following chart.



Apart from the above LIC has three International Branches as follows:

- Mauritius
- United Kingdom
- Fiji

Life Insurance Corporation also operates in Overseas Insurance Market through Joint Ventures as follows:

- Life Insurance Corporation International B SC (C) registered in Baharin
- Ken India Assurance Company registered in Nairobi.
- Life Insurance Corporation (Nepal) Limited registered in Kathmandu.
- Life Insurance Corporation (Lanka) Limited registered in Colombo.
- Saudi India Company for Cooperation in Insurance registered in Riyadh.
- Life Insurance Corporation (Mauritius) Offshore Ltd. registered in Port Louis,
Mauritius is a Joint Venture Company between LIC of India and GIC of India.

A representative office has also been recently established in Singapore.

b. General Insurance Corporation

General Insurance Corporation of India (GIC) was approved as ‘Indian Reinsurer’ on 3rd November 2000. It provides reinsurance cover to Insurance Companies engaged in General Insurance (Non Life Insurance)

‘Reinsurance is a process whereby one entity (the reinsurer) takes on all or part of the risk covered under a policy issued by an insurance company in consideration of a payment of premium. In other words it is a form of an insurance cover for insurance companies.

As an Indian reinsurer GIC has been giving support to four public sector and other private sector general insurance companies.

GIC also has a presence in foreign reinsurance business through branch offices in Dubai and London and a representative office in Moscow.

Apart from reinsurance business, GIC continues to participate in the share capital of

- Ken India Assurance Company Ltd (Kenya)
- India International Insurance Pvt. Ltd, Singapore
- LIC (Mauritius) Offshore Ltd, a joint venture company promoted by LIC of India in Mauritius.

c. General Insurance Companies in Public Sector

As of now there are four General Insurance Companies in Public Sector in India.

These are as follows:

- National Insurance Company Ltd.
- New India Assurance Company Limited
- Oriental Insurance Company Ltd
- United India Insurance Company Ltd.

These Companies function independently. However they have formed an association known as General Insurance (Public Sector) Association of India (GISPA) with headquarters in Delhi.

The four Public Sector General Insurance Companies have a total of 101 Regional Offices, 1395 Divisional Offices, 2880 branch offices in India and 43 Overseas Offices.

These four Public Sector Insurance Companies have contributed along with General Insurance Corporation of India(GIC) and NABARD (National Bank of Agriculture and Rural Development) to set up a Crop Insurance Company called Agricultural Insurance Company of India Ltd.

This Company provides crop insurance to protect the farmers against crop losses suffered due to natural calamities. The Head Office of this Company is in New Delhi.

5.4.2. Insurance Companies in Private Sector

Liberalization, Privatization and Globalization have opened new horizons in Insurance Industry. This has resulted in many international players setting up joint ventures in India with Indian Partners. Till recently the limit on Foreign Investment in Entities doing Insurance business was 26% which has recently (year 2015) been increased to 49%.

Accordingly, if any foreign company has to do business in India in the Insurance Sector it has to collaborate with an Indian partner and its maximum holding in the Indian Entity would be up to 49%.

As of now there are 23 insurance companies in the Private Sector carrying out Life Insurance business. These are as follows:

Sr. No.	Name of Insurance Company
1.	Bajaj Alliance Life Insurance Company Limited
2.	Birla Sun Life Insurance Company Limited
3.	HDFC Standard Life Insurance Company Limited
4.	ICICI Prudential Life Insurance Company Limited
5.	ING Vysya Life Insurance Company Limited
6.	Max New Life Insurance Company Limited
7.	Metlife Insurance Company Limited
8.	Kotak Mahindra Old Mutual Life Insurance Company Limited
9.	SBI Life Insurance Company Limited
10.	TATA AIG Life Insurance Company Limited
11.	Reliance Life Insurance Company Limited
12.	Aviva Life Insurance Company Limited
13.	Shriram Life Insurance Company Limited
14.	Sahara India Life Insurance Company Limited
15.	Bharti AXA Life Insurance Company Limited

16.	Future Generalli India Life Insurance Company Limited
17.	IDBI Fortis Life Insurance Company Ltd
18.	Canara HSBC Oriental Bank of Commerce Life Insurance Company Limited
19.	AEGON Religare Life Insurance Company Limited
20.	DLF Pramerica Life Insurance Company Limited
21.	Star Union Dai- ICHAI Life Insurance Company Limited
22.	India First Life Insurance Company Limited
23.	Edelwise Tokio Life Insurance Company Limited

Similarly there are 22 insurance companies in general Insurance under the Private Sector. These are as follows:

Sr. No.	Name of Company
1.	Bajaj Alliance General Insurance Company Limited
2.	ICICI Lombard General Insurance Company Limited
3.	IIFCO- TOKIO General Insurance Company Limited
4.	Reliance General Insurance Company Limited
5.	Royal Sundaram Alliance Insurance Company Limited.
6.	TATA AIG General Insurance Company Limited
7.	Colamandalum General Insurance Company Limited
8.	HDFC ERGO Insurance Company Limited
9.	Star Health Allied Insurance Company Limited.
10.	Apolo D KV Insurance Company Limited.
11.	Shri Ram General Insurance Company Limited
12.	Max Buppa Health Insurance Company Limited
13.	Future Generalli India Insurance Company Limited
14.	Universal Sompo General Insurance Company Limited.

15.	Bharti AXA General Insurance Company Ltd
16.	Raheja QBE General Insurance Company Limited
17.	L&T General Insurance Company Limited
18.	Religare Health Insurance Company Limited
19.	Magma HDI General Insurance Company Limited
20.	Liberty Videocon General Insurance Company Limited
21.	SBI General Insurance Company
22.	Cigna TTK Health Insurance Company Limited

5.5. Summary

In India, Insurance has a deep rooted history.

While Life Insurance Business was nationalized in the year 1956, General Insurance Business was nationalized in the year 1972.

The year of 1999 marked the beginning of liberalization in Insurance Sector. This was made possible with the formation of a Regulatory Body called Insurance Regulatory & Development Authority Ltd. (IRDA).

At present the cap on Foreign Investment in the Insurance Sector in India is 49%

The Indian Insurance Industry consists of 52 Insurance Companies out of which 24 carry out Life Insurance Business and 28 carry out Non Life or General Insurance Business.

5.6. Practice Questions

- a. The Body or Authority that regulates Insurance Sector in India is called _____.

b. After nationalization General Insurance Corporation had four subsidiaries. Three are as follows:

- National Insurance Company Ltd
- New India Insurance Company Ltd
- Oriental Insurance Company Ltd

Name the fourth subsidiary?

c. At present the on Life Insurance Business can be carried out only by Life Insurance Corporation of India Limited. No other Company can carry out Life Insurance Business. Please state whether this statement is

Correct/ Incorrect

d. At present there are _____ Companies in India that carry out the business of General Insurance.

e. Explain the concept of Liberalization in Insurance Sector.

f. Enumerate the Objectives of IRDA

<p>Answer Keys: a – Insurance Regulatory & Development Authority Ltd., b - United India Insurance Company Ltd, c – Incorrect, d – 28.</p>
--
