Course Code : R20MBA27

Course Title : BANKING AND INSURANCE MANAGEMENT

Course (Year/Semester) : MBA II Year I Semester
Course Type : Finance Elective-V
Course Credits : 3

Course Aim/s:

To acquaint the students with various services provided by Banking and Insurance sectors to the business

To provide good understanding on the role of management in Banking and Insurance sectors.

Learning Outcome/s:

- ✓ Students will understand various services rendered by banking and insurance sector
- ✓ Allows to know the significance of risk management techniques in banking and insurance industry.

I: Introduction to Banking
Banking Industry: Structure of Banking Industry - Public and Private Sectors Banks in India - Corporate Banking and Universal Banking - Core Banking -Banking Sector Reforms - Techniques of Credit Control.
Innovation in Banking: E-Banking - Delivery Channels - ATM - EFTPOS - Phone Banking - Internet Banking - SMS Banking - Mobile Banking - Credit/Debit Cards - Smart Cards - UPI - Bancassurance.

Unit-II: Commercial Banking Operations
Banking Operations: Payment and Settlement System - New Age Clearing - New Age Payment - RTGS - NEFT - SWIFT - NTGS - KYC Norms and Anti - Money Laundering - FEMA.
Asset Liability Management (ALM): Concept - Organization and Techniques - Provision for NPA’s - NPA's in Commercial Banks - Causes and Suggestions - Prudential Norms.

Unit-III: Management of Banking Organization→Credit Risk Management: Introduction - Capital Adequacy Norms - Standardized and Advanced Approaches for Credit Risk - Credit Rating/Credit Scoring - Rating System Design.
Loan Management: Contents of Loan Policy - Evaluating Credit Applicant Market Risk - Liquidity Risk - Interest Rate Risk - FOREX Risk.
Customer Relationship Management: Relation Management - Grievance Redressal - Banking Ombudsmen.

Unit-IV: Introduction to Insurance
Introduction: Concept - Nature - Scope and Significance - Investment Patterns - Types of Policies.
Life insurance: Premium Calculations - Annuities - Measurement of Risk and Morality Table.
General Insurance: Fire Insurance - Conditions of Fire Insurance - Subrogation and Reinsurance - Accident and Motor Insurance - Types of Motor Insurance - Factors to be

considered for Premium Fixing - Concept of Health Insurance - Group Insurance - Home Insurance - Catastrophe Insurance

Unit-V: Management of Insurance Companies-Underwriting: Functions - Principles - Underwriting in Life Insurance - Underwriting in Non-Life Insurance.

Claims Management: Claim Settlement in General Insurance - Accident Benefit - Disability Benefit - Permanent Disability Benefit - Claim Settlement in Life Insurance - Maturity Claims and Death Claims.

REFERENCES:

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- Sunil Kumar, Essentials of Banking and Insurance, JSR Publishing House
- N.R. Mohan Prakash, Banking, Risk and Insurance Management, Vikas Publishing
- M.N. Mishra & S.B. Mishra, Insurance: Principles and Practice, S. Chand & Co
- Vasanth Desai, Banking Theory and Practice, Himalaya Publishing House (HPH),
- Muralidharan, Modern Banking Theory and Practica

INTRODUCTION

The banking sector is the lifeline of any modern economy. It is one of the important financial pillars of the financial sector, which plays a vital role in the functioning of an economy. It is very important for economic development of a country that its financing requirements of trade, industry and agriculture are met with higher degree of commitment and responsibility. Thus, the development of a country is integrally linked with the development of banking. In a modern economy, banks are to be considered not asdealersin money but as the leaders of development. They play an important role in the mobilization of deposits and disbursement of credit to various sectors of the economy.

A. Early Phase of Indian Banks, from 1786 to 1969

The first bank, namely Bank of Bombay was established in 1720 in Bombay. Later on, Bank of Hindustan was established in Calcutta in 1770.

East India Company established the three independently functioning banks, also known by the name of “Three Presidency Banks” - The Bank of Bengal in 1806, The Bank of Bombay in 1840, and Bank of Madras in 1843. These three banks were amalgamated in 1921 and given a new name as Imperial Bank of India. After Independence, in 1955, the Imperial Bank of India was given the name "State Bank of India". It was established under State Bank of India Act, 1955.

In the surcharged atmosphere of Swadeshi Movement, a number of private banks with Indian managements had been established by the businessmen from mid of the 19th century onwards, prominent among them being Punjab National Bank Ltd., Bank of India Ltd., Canara Bank Ltd, and Indian Bank Ltd. The first bank with fully Indian management was Punjab National Bank Ltd. established on 19 May 1894, in Lahore (now in Pakistan).

B. Nationalization of Banks and the Banking Sector Reforms, from 1969 to 1991:

The number of banks in India in 1951 was the highest – 566. In 1960, RBI was empowered to force the compulsory merger of the weak banks with the strong ones. This led to a reduction in the number of banks to 89 in 1969. **On July 19, 1969, 14 major banks were nationalized.** On April 15, 1980, another six banks were nationalized and thus raising the number of nationalized banks to 20.

C. New Phase of Indian Banking System, with the Reforms After 1991:

On the suggestions of Narasimha Committee, the Banking Regulation Act was amended in 1993 and thus the gates for the new private sector banks were opened.

In 1993, New Bank of India was merged with Punjab National Bank. "Industrial Development Bank of India (IDBI)" - was established as a Development Bank in 1964 - by an act of Parliament. It was given the status of a scheduled bank in September 2004 by RBI.

Bharatiya Mahila Bank Ltd – all women's bank was established in 2013. It is based in New Delhi. Its first branch started its operations on November 19, 2013. The inauguration was done by former Indian Prime Minister S. Manmohan Singh.

The present structure of Indian Banking System is as follows:-

Reserve Bank of India is the central bank of the nation and all Banks in India are required to follow the guidelines issued by RBI. The present structure includes:

1. PUBLIC SECTOR BANKS:

- ❖ These include:Currently, there are 27 Public Sector Banks in India including 19 Nationalized Banks (14+6 – 1 New Bank of India merged with PNB in 1993 + SBI which is not a nationalized bank + Five Subsidiaries of SBI + IDBI + BharatiyaMahila Bank – established under Parliament of India Acts).
- ❖ State Bank of India and its 5 Associate Banks, together called State Bank Group (The names of the 5 Associate Banks are: State Bank of Travancore (SBT), State Bank of Patiala (SBP), State Bank of Hyderabad (SBH), State Bank of Mysore (SBM) and State Bank of Bikaner and Jaipur (SBBJ). The Union Cabinet approved the merger of the five subsidiaries; and BharatiyaMahila Bank Ltd with SBI on June 15, 2016, and the merger is in progress.
- ❖ Regional Rural Banks (RRBs): Previously these were 196 Regional Rural Banks sponsored by 27 State Cooperative Banks. As on 31st March 2013 due to mergers, their number has come down from 196 to 64. The numbers of branches of RRBs are 17856 as on 31 March 2013 covering 635 districts throughout the country. Notably, currently, there are 664 districts in India.
- ❖ Development Banks: These include Industrial Finance Corporation of India (IFCI) established in 1948, Export-Import Bank of India (EXIM Bank) established in 1982, National Bank for Agriculture & Rural Development (NABARD) established in 1982, and Small Industries Development Bank of India (SIDBI) established on 2nd April 1990.

2. PRIVATE SECTOR BANKS:

- ❖ Private Banks and Foreign Banks: Currently, 23 banks operating in India in this category.

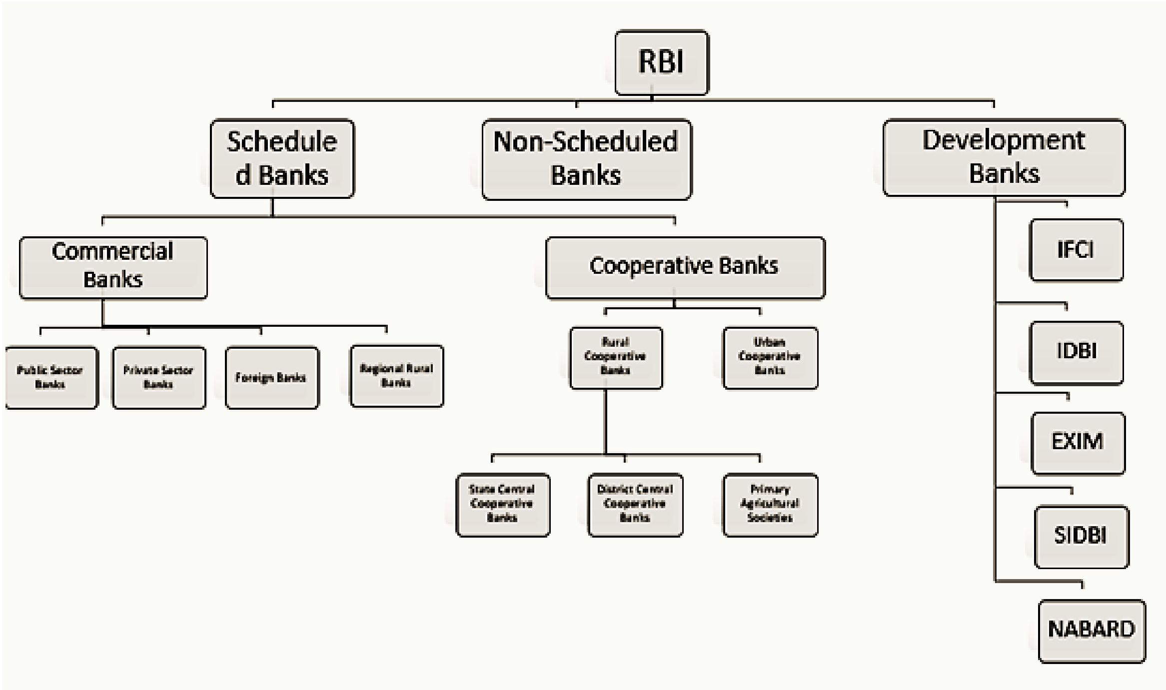
- District Central Co-Operative Banks in India: As on 01.04.2016, there are 371 District Central Cooperative Banks in India with the maximum number of these located in U.P. (50) and Madhya Pradesh (38).
- Market Size→The Indian banking system consists of 12 public sector banks, 22 private sector banks, 46 foreign banks, 56 regional rural banks, 1485 urban cooperative banks and 96,000 rural cooperative banks in addition to cooperative credit institutions As of September 2021, the total number of ATMs in India reached 213,145.
- In FY18-FY21, bank assets across sectors increased. Total assets across the banking sector (including public and private sector banks) increased to US$ 2.48 trillion in FY21.
- In FY21, total assets in the public and private banking sectors were US$ 1,602.65 billion and US$ 878.56 billion, respectively.
- During FY16-FY21, bank credit increased at a CAGR of 0.29%. As of FY21, total credit extended surged to US$ 1,487.60 billion. During FY16-FY21, deposits grew at a CAGR of 12.38% and reached US$ 2.06 trillion by FY21.
- According to the RBI, bank credit stood at Rs. 110.46 trillion (US$ 1.47 trillion) and credit to non-food industries stood at Rs. 109.82 trillion (US$ 1.46 trillion) as of September 24, 2021.
- Banking for $1.37 bn
- Total Banking Assets of $2.52 Tn in FY20 with a CAGR was at 2.25%
- Respective breakdowns for PSUs ($1.53 Tn), Private Sector ($0.81 Tn) and Foreign Banks ($0.18 Tn)
- Assets of PSUs were nearly 60% of total banking assets.

BANKING SYSTEM

- Structure of the Indian Banking System
- Scheduled, Non-Scheduled Banks and Development Banks
- Commercial Banks
- Cooperative Banks
- Development Banks
- Conclusion

Structure of the Indian Banking System

- ✓ Reserve Bank of India is the central bank of the country and regulates the banking system of India. The structure of the banking system of India can be broadly divided into scheduled banks, non-scheduled banks and development banks.
- ✓ Banks that are included in the second schedule of the Reserve Bank of India Act, 1934 are considered to be scheduled banks.
- ✓ All scheduled banks enjoy the following facilities:
- ✓ Such a bank becomes eligible for debts/loans on bank rate from the RBI
- ✓ Such a bank automatically acquires the membership of a clearing house.
- ✓ All banks which are not included in the second section of the Reserve Bank of India Act, 1934 are Non-scheduled Banks. They are not eligible to borrow from the RBI for normal banking purposes except for emergencies.
- ✓ Scheduled banks are further divided into commercial and cooperative banks.
- ✓ Scheduled, Non-Scheduled Banks and Development Banks



✓ Commercial banks

- Commercial banks are an important part of financial system of a country. These banks have substantial financial resources & hence are dominant players in all segments of financial markets like credit, money, securities, foreign exchange and derivatives.
- They mobilize funds mainly in the form of deposits including demand deposits. Banks use deposits and borrowings mainly for giving loans & investing funds in various financial assets.
- Thus they are an important financial intermediaries in the financial system of a country. The country's industry development and economic growth largely depends on the efficiency of commercial banking system.
- If a country has sound and strong commercial banking system then its economy is likely to witness significant growth in savings, investment and lending to various industries and agriculture sectors. In India, all commercial banks are considered as schedule commercial banks.

The following 14 major commercial banks were nationalized in 1969

1. The Central Bank of India Ltd.
2. The Bank of India Ltd
3. The Punjab National Bank Ltd.
4. The Bank of Baroda Ltd.
5. The United Commercial Bank Ltd. (UCO)
6. The Canara Bank Ltd.
7. The United Bank of India Ltd.
8. The Dena Bank Ltd
9. The Syndicate Bank Ltd.
10. The Union Bank of India Ltd.
11. The Allahabad Bank Ltd.
12. The Indian Bank Ltd.

13. The Bank of Maharashtra Ltd.
14. The Indian Overseas Bank Ltd.
Subsequent to the nationalization of major 14 commercial banks the Government of India decided to bring more private sector banks in the public sector. Accordingly the Government of India nationalized following six more schedule commercial banks (with an aggregate deposits of Rs. 200 crore or moreper banks) through issue of ordinance in April 1980.

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

Comparison of Public and Private sector banks in India

DIFFERENCES IN PUBLIC & PRIVATE SECTOR BANKS

- Public sector banksare those where majority of the stake in the bank is held by government. Where as in private sector bank, majority is held by share holders of the bank. Ex - SBI is a public sector bank and ICICI is a private sector bank.
- Public sector banks are classified into two categories further- 1. Nationalised Banks 2. State Bank and its Associates. In nationalized banks the government control and regulates the functioning of the banking entity. Number of banks and shier branches are more as compared to private sector
- Private Sector Banks:→In these banks, most of the equity is owned by private bodies, corporations, institutions or individuals rather than government. These banks are managed and controlled by private promoters.
- Of the total banking industry in India, Public sector banks constitute 72.9% share while the rest is covered by private players. In terms of the number of banks, there are 27 public sector banks whereas 22 private sector banks.
- Shareholders->In a public sector bank more than fifty percentage of the stake is held by the Government. In a private sector majority of the stake owned to private shareholders, including corporations and individuals.
- Interest Rate→Deposit interest rates offered by public sector banks are almost the same when compared to private sector banks. However new-age banks such as the Bandhan Bank, Airtel Bank are offering marginally better interest rates when compared with their counterparts
- In case of loans, interest rates are marginally lower as for example SBI introduced a new home loan offering for its women customers with an interest rate of 8.35% for a ticket size of uptoRs. 30 lakhs.
- Fees & Service→Private Sector Banks have made names in providing better service, however, they charge for the extra services provided by them.

Public sector banks fees and charges are less such as on balance maintenance. A lot of public sector banks are still picking up in their service offerings.

- **Customer Base:Mostly public sector accounts are opened for government employees for their** salaries, fixed deposits, lockers etc. Their customer base is also relatively large when compared with their peers in the private sector as they have been in the domain for long and have managed to gain customer's confidence.

- Whereas private sector bank in India target company employees,for their salary accounts, credit cards and net banking.
- **Financial performance**
- In terms of financial performance, PSU banks lag behind. When comparing most of the parameters like non performing assets or NPA and net interest margins, private sector banks tend to be much better placed.
- For example, some of the private sector banks like HDFC Bank and IndusInd Bank have very low level of non performingassets, as compared to Bank of Baroda have reported record losses.
- Another important factor is that in terms of capital adequacy as well, public sector banks are lagging behind, their private sector banking peers.
- Examples of private and public sector banks
- public and government sector banks include State Bank of India, Punjab National Bank, Bank of Baroda, Bank of India - Some of the larger private sector banks ICICI Bank, HDFC Bank, Yes Yank, IndusInd Bank, Kotak Mahindra Bank.
- **Opportunity, Job Security and Other Benefits**
- Public sector banks offer lesser opportunities but job prospects are bright here with promotions with seniority, job security as well as pension benefits that are gained post- retirement.
- Growth opportunity is lower in public sector where as higher in private sector. Promotions with seniority in public sector, in private sector promotions with performance job security is high in public sector, private sector is less
- pension is available in public sector where as no pension in private sector

Corporate Banking Services

- The term "corporate banking" refers to a variety of services offered by banks that are designed to meet the needs of large corporations and multinational organizations. This includes areas such as: commercial loans, treasury management, international trade finance, mortgage-backed securities and other debt instruments, equity securities underwriting, and distribution for public issuance.
- Corporate banking differs from commercial banks because it caters exclusively to the needs of businesses with more than 5 million dollars in assets and has a board of directors composed entirely of members who are not executives or employees of the bank.
- Corporate banking is not just about taking deposits and making loans to companies, it also includes providing advice on how to invest money and when to borrow funds in order to improve a company's cash flow.

Benefits of Corporate Banking

1. Corporate banking is a way to get the most out of your money
2. It's easy for corporations to deposit their large sums of cash with corporate banks. They can invest in stocks, bonds, and other financial instruments that will grow their investments
3. Corporate Banking offers specialized services for businesses such as credit card processing and merchant services.
4. Corporate banking is a great way to invest in your company.

5. Corporate banking offers many different types of accounts with competitive rates that can save you money on taxes.
6. If you’re looking for someone trustworthy and professional to handle all your finances, then corporate banking is the perfect match for you!
7. Corporate banking offers a variety of products and services to meet your needs
8. With corporate banking, you can take care of all your finances in one place
9. You’ll have access to experts who will help you make the most informed decisions for your business
10. A corporate bank account is more secure than a personal bank account because it has higher security measures in place
11. Corporate banks offer online and mobile banking options so you can easily manage all aspects of your finances from anywhere at any time.

1. Corporate banking is a division of commercial banks that focuses on lending to corporations. Corporate banking is all about loans and managing money. They make sure that banks have enough money to lend to their customers so they can borrow from them when needed, and vice versa.
2. The corporate banking industry has grown since the recession in 2008, with companies borrowing more money from banks.
3. As of 2016, there are an estimated 6,000 corporate banks around the world. There are more than 150,000 employees in this sector worldwide. The average age of a Corporate Banking employee is 41 years old and has been in the industry for 16 years.
4. Banks offer loans and other financial services to corporations based on how creditworthy they deem them to be. There’s more than just one type of corporate banker out there: retail bankers work with individual businesses looking for loans while investment bankers focus on larger deals such as mergers or acquisitions.
5. A corporation can borrow money from a bank for general business purposes or for specific projects like building new facilities or buying new equipment
6. Corporate banking is a form of financing that helps companies to grow. They provide capital investment options to help companies grow or develop their business by providing them with loans, lines of credit, asset-based lending facilities or other forms of financing such as risk mitigation strategies when they need it most and
7. It’s not just for big corporations – many small and medium-sized businesses use it too.
8. You can get corporate loans, lines of credit, or commercial mortgages through this type of banking.
9. Banks are required to report any suspicious activity they find during transactions
10. There are different types of corporate banking available depending on the size and needs of your business

The following products and services to corporations and other financial institutions:

- ✓ **Loans and other credit products**
- ✓ **Treasury and cash management services**
- ✓ **Equipment lending**
- ✓ **Commercial real estate**
- ✓ **Trade finance**
- ✓ **Employer services**

Through their investment banking arms, commercial banks also offer related services to their corporate clients, such as asset management and securities underwriters.

1. Credit→Loans and related credit products are offered to corporate customers. Credit facilities form the largest share of profits for commercial banks. The interest rates imposed on the loans are significantly high due to the amount of risk prevalent in lending to corporate customers.

2. Treasury services→Treasury services are used by companies to manage their working capital requirements. Such services are extremely important for multinational companies as they facilitate currency conversion.

3. Fixed asset requirement financing→Fixed asset requirement financing services are important for corporates involved in capital-intensive industries such as transportation, information technology, and heavy machinery manufacturing. Banks facilitate customized loans and lease agreements for the purchase of equipment, machinery, etc.

4. Employer services→Commercial banks also provide services such as the selection of retirement plans and healthcare plans, as well as payroll facilities, for employees.

5. Commercial services→Banks also provide services such as portfolio analysis, leverage analysis, debt and equity restructuring, analyses of real assets, etc. Other services that are of importance to corporate clients include asset management services and underwriters for initial public offering (IPOs), etc.

Characteristics of Corporate Banking

1. Clientele->A bank's business banking unit usually serves small to middle-sized businesses and large conglomerates.

2. Authority→A company's corporate banking accounts can only be opened after obtaining consensus from the board of directors of the company. It means that they must be authorized by an official vote or a corporate resolution. The company's treasurer usually opens corporate accounts.

3. Liability→Since companies are recognized as separate legal entities under the law, all contents of corporate accounts are the property of the company and not of the individual board members. It means that there is a certain degree of independence to corporate accounts. It also indicates that the personal creditors of the board of directors are not entitled to the contents of the corporate account of a company.

4. Credit rating

The conduct or functioning of the corporate account forms part of the credit history of the company. It affects the valuation and share prices of the company, the interest rates applicable to loans extended to the company, etc.

5. Bankers

Corporate banking requires a degree of expertise in the industry. Thus, corporate bankers are extremely well paid. JP Morgan Chase, Bank of America Merrill Lynch, and Goldman Sachs are some of the largest commercial banks in the world.

Universal Banking

Ever since the financial sector reforms were introduced in early 90's the banking sector saw the emergence of new generation of private sector banks. These banks gained at most popularity as they have technology edge and better business models when compared to public sector banks and the most important thing is they are able to attract more volumes simply because they meet their customers requirements under one roof.

Universal banking is a system in which banks provide a wide variety of comprehensive financial services, including those tailored to retail, commercial, and investment services.

- ✓ Universal banking became more common in the United States starting in 1999.
  - Universal Banking, means the financial entities – the commercialbanks, Financial Institutions, NBFCs, - undertake multiple financialactivities under one roof, thereby creating a financial supermarket.
  - The entities focus on leveraging their large branch network and offerwide range of services under single brand name.

Universal bankinggenerally takes one of the three forms:
a. In-house Universal banking. Eg. Germany, Switzerland.
BANK $\boxed{\text{Securities, Investments Mutualfunds, InsuranceUnderwriting,Advisory}}$ Etc
b. Through separately capitalized subsidiaries. Eg. England, Japan.
c. Operations carried through a holding company 1. Eg. USA, Japan2..

Universal banks offer three main services:

1. **Retail banking**
2. **Wholesale banking**
3. **Investment banking**

Universal banking combines the services of a commercial bank and an investment bank, providing all services from within one entity. The services can include deposit accounts, a variety of investment services, and may even provide insurance services. Deposit accounts within a universal bank may include savings and checking.

- ✓ Under this system, banks can choose to participate in any or all of the permitted activities. They are expected to comply with all guidelines that govern or direct proper management of assets and transactions. Since not all institutions participate in the same activities, the regulations in play may vary from one institution to another. However, it is important not to confuse the term "universal bank" with any financial institutions with similar names.
- ✓ Some of the more notable universal banks include Deutsche Bank, HSBC, and ING Bank; within the United States, Bank of America, Wells Fargo, and JPMorgan Chase qualify as universal banks.
- ✓ In general, Universal Bank is a name given to banks engaged in diverse kind of banking business which includes not only services related to savings and loans but also investments, offering wide range of financial services, beyond commercial banking and investment banking, insurance etc.

This is most common in European countries and this concept is widely popular in countries like USA but is a bout to take -off officially in India, as the definition of Universal Banking is yet to be established clearly and conclusively.

- ➢ The characteristics of Universal Banking heavily depend of two most important factors, namely:
  - The specific country's diversification rules and regulations.
  - The strengths of individual banks in enlarging the scope of the activities in the various segments of financial services industry.
- ➢ Universal banking helps service provider to build up long –term relationships with clients by catering to their different needs. Theclient also benefits as he gets a whole range of services at lower cost and under one roof.
- ➢ In the year 2001, RBI released a paper on Approach to UniversalBanking, containing the salient features on the regulatory andoperation issues to be addressed by all the Financial Institutions which are intending to convert themselves into a universal bank
- ➢ Some of the notable universal banks embrace Deutsche Bank, HSBC, and ING Bank; inside the U.S., Bank of America, Wells urban centre, and JPMorgan Chase qualify as universal banks.

Concluding Remarks

The following are the steps suggested in -order to ensure that there isa smooth and effective implementation of universal banking in India:

a. Equalize the net regulatory burden across the financial system(including banks, Financial Institutions, mutual funds, Non –BankingFinance Companies and Insurance companies).
b. Lower the regulatory burden on the over regulated entities.
c. Promote and encourage strong competition.
d. Do not allow the merger of a weak bank with a viably strongFinancial Institutions or vice-versa.
e. Financial Institutions should be permit ted to set up a 100 percentowned banking subsidiaries freely.
f. Need is felt to re -examine the minimum level of Statutory LiquidRatio (SLR) requirement in order to meet the best of internationalstandards.
g. Financial Institutions willing to convert themselves into auniversal bank, should prepare a transition path, in -order to fullycomply with the regulatory requirements of a bank.

In India already some groups like the HDFC, which is intocommercial banking and insurance joint venture with StandardAssurance, ICICI that is into commercial banking, SBI - investment-banking division etc., have already started diversifying from their traditional activities through setting up subsidiaries and jointventures.

In a recent move, the Life Insurance Corporation (LIC)increased its stakes in Corporation Bank and is planning to sellinsurance to the customers of the Bank.

Salient operational and regulatory issues to be addressed bythe **FIs for conversion** into **a Universal Bank [RBI circular]**
a)Reserverequirements-CRR & SLR
b)Permissible activities-Any activity of an FI currently undertaken but not permissible c)Disposal of non-banking assets-maximum period of 7 years from thedate of acquisition
d)Composition of the Board
at least 51% of the total number ofdirectors to have special knowledge and experience.
f) Nature of subsidiaries-delinking of such subsidiary / activity
g) Restriction on investments-excess of 30 % paid up share capital of that would need to divest
i)Licensing,Branch network
Required toobtain a banking license from RBI &branch licensing policy for carrying on banking business inIndia, atleast 25 per cent of their totalnumber of branches in semi-urban and rural areas.
l) Format of annual reports-Topublish annual balance sheet and profit and loss account
p) Priority sector lending& Prudential norms the obligation for lendingto “priority sector” and following Prudential norms

Advantages of Universal Banking

1. Economies of Scale→The main advantage of universal banking is that it results in greater economic efficiency in the form of lower cost, higher output, and better products.
Many committees and reports by **Reserve Bank Of Nation** are in favor so universal banking as it enables banks to exploit economies of scale and scope.

2. Profitable Diversions→By diversifying the activities, the bank can use its existing expertise in one type of financial service in providing other types. **So**, it entails less cost in performing all the functions by one entity instead of separate bodies.

3. Resources Utilization→A bank possesses information on the risk characteristics of the clients, which can be used to pursue other activities with the same clients.
A data collection about the market trends, risk, and returns associated with a portfolio of mutual funds, diversifiable and non-diversifiable risk analysis, etc. are useful for other clients and information seekers. **Automatically**, a bank will get the benefits of being involved in the research.

4. Easy Marketing on the Foundation of a Brand Name
A bank’s existing branches can act as shops of selling financing products like insurance, mutual funds without spending much effort on marketing as the branch will act here as a company or source.
In this way, a bank can reach the client even in the remotest area without having to take resources to an agent.

5. One-Stop Shopping→The idea of one-stop shopping saves a lot of transaction costs and increase the speed of economic activities. It is beneficial for the bak as well as its customers.

6. Investor-Friendly Activities

Another manifestation of universal banking is bank holding stakes in a form: a bank's equity holding in a borrower firm acts as a signal for other investors onto the health of the firm since the lending bank is in a better position to monitor the firm's activities.

Disadvantages of Universal Banking

1. Grey Area of Universal Bank

The path of universal baking for DFI-Development Finance Institution is spread with obstacles.

DFIs are not required to keep a portion of their deposits as cash reserves.

2. No Expertise in Long Term Lending

Project finance and infrastructure finance are generally long gestation projects and would require DFIs to **borrow long term loans**.

3. NPA Problems Remained Intact

The most serious problems that the DFI's have had to encounter are bad loans or non-performing assets (NPA's).

Risk of Failure: The larger the banks, the greater the effects of their failure on the system. The failure of a larger institution could have serious for the entire banking system. If one universal bank were to collapse, it could lead to a systemic financial crisis.

Concentration of Monopoly Power in the Hands of Few Banker: Universal banking sometimes creates monopoly power in the hands of few large bankers. Such a monopoly power in the hands of a few big bankers is a source of danger to the community whose goal is a socialistic pattern of society.

Bureaucratic and Inflexible: Universal banks tend to be bureaucratic and inflexible. They tend to work primarily with large established customers and ignore or discourage smaller and newly established businesses.

Different Rules and regulations: In offers all financial product and services under one roof.However ,all these products and services have to follow different rules and regulation of RBI, SEBI, IRDA. This create many problems because same bank has to follow different rules and regulation for different products.

Conflict of interest : Combining commercial and investment banking can result in conflict of interest .some banks may give more importance to one types of banking and less importance to another one.

- Flexibility in adapting to the fast changing environment.
- Better and innovative products.
- Reduction of risk by diversification.
- Access to international financial markets.
- Higher output due to specialization.

Limitations of universal banking:

- The failure of a larger institution could have serious ramifications for the entire system in that if one universal bank were to collapse, it could lead to a systemic financial crisis. Thus, Universal Banking could subject the economy to the increased systemic risk.

- Universal bankers may be tempted to take excessive risks. In such cases, the government would be forced to step in to save the bank.
- Vulnerable to high risks due to investment banking activities coupled with focus on commercial banking activities.
- By virtue of their sheer size, universal banks may gain monopoly power in the market, which can have significant undesirable consequences for economic efficiency.
- Universal banks may tend to work primarily with large established customers and ignore or discourage smaller and newly established businesses.
- Universal banks could use such practices as limit pricing or predatory pricing to prevent smaller specialized banks from serving the market. This argument mainly stems from the economies of scale and scope.
- Combining commercial and investment banking gives rise to conflict of interests, as universal banks may not objectively advise their clients on optimal means of financing or they may have an interest in securities because of underwriting activities.
- There may be conflict between the investment banker's promotional role and the commercial banker's obligation to provide disinterested advice .
- Banks may deploy their own assets in securities with consequent risk to commercial and savings deposits.
- Unsound loans may be made in order to shore up the price of securities or the financial position of companies in which a bank had invested its own assets.
- A commercial bank's financial interest in the ownership, price, or distribution of securities inevitably may tempt bank officials to press their banking customers into investing in securities which the bank itself was under pressure to sell because of its own pecuniary stake in the transaction.

Core Banking

- ✓ Core banking solutions (CBS) help automate front-end and back-end processes of banks to achieve centralized and smooth processing.

- ✓ These applications offer a single view of the customer and facilitate automation across delivery channels.

- ✓ The concept of CBS has helped banks become one-stop shops for all the financial needs of retail and corporate customers by offering multiple services under one roof.

- ✓ CBS implementation, allows customers can now access their accounts from any branch of their bank, irrespective of which branch the account was opened at.

- ✓ Core Banking Solutions, also known in short as CBS is a system in which all branches of a bank are interconnected via computers. This will help the customers to access his/her accounts from any branch of the bank.

- ✓ The CBS allows the customers of the bank to perform basic transactions easily over the networked branches of the bank.
- ✓ Services like withdrawals, payments, loans and transfers through a range of avenues like ATMs, internet banking and mobile banking.
- ✓ CORE essentially stands for Centralised Online Real-time Exchange. The details of the accounts are stored on the centralised data centres of the bank.
- ✓ Thus all the transactions are reflected instantly on the bank's servers no matter from where the transaction has been made.
- ✓ Some of the banks do the networking on their own, while some outsource the responsibility. There are several agencies which take up the task with the help of advanced software.
- ✓ Almost all the major banks in India have Core Banking enabled.
- ✓ The bank enabled with CBS have a longer account numbers that run for 15 or 18 digits.
- ✓ Core Banking not only allows you to perform transactions at any branch, or other medium such as internet banking, but it also helps your bank to to be interconnected with the other banks and their branches thereof both within the country or elsewhere in the world.
- ✓ Transactions within India are made through the channels like NEFT and RTGS, while international transactions are made possible by means of SWIFT codes.

Some advantages of CBS are:

1. It lets the customer access banking services 24x7.
2. It is the most efficient way of performing banking transactions.
3. Faster than the conventional methods of banking.
4. From the bankers' point of view, it improves the efficiency of the services.
5. Involves greater customer satisfaction.
6. Reduces operational & maintenance costs of bank as you need not have more branches
7.CBS increases employee efficiency and reduces human error and fraud.
8. It also facilitates the correction of errors.
9.CBS adoption has given bank employees opportunity to strengthen relationships with customers.

The number of public sector bank branches in India with CBS implementation increased from 79.4% in March 2009 to 90% in March 2010.

10.Virmati's CBS is compatible & commercially available on Microsoft SQL Server 2012.

The most unique advantage is

- Automates all retail & corporate banking processes with best of breed functional modules and a full complement of state-of-art features.
- Work on maker-checker and single window concept.
- Is easiest to handle, highly parameterized and most flexible software.

It is suitable for all type of banks like…Government Bank, Private Bank, Commercial Bank, Investment Bank, Community Bank, Service Bank, Central Bank of a Country. In India banks like…Co-operative Bank, District Bank, Gramin Banks (RRB) and Credit Societies

Core Banking Features

- Browser Based Clients
- Alerts & Electronic Distribution
- Multi Currency
- Cash Maintenance (Unit wise)
- Globalization – Language and Calendar Compatibility
- Sweep Account Facility
- KYC (Know Your Customer) Standard
- Service Branch Clearing (Indian content)
- Bulk Account Opening (Through Excel Sheet)
- & Account Open Form PrintingCalculation Methods Highly Parameterize

Bank Credit Line / Customer Credit Line / Customer Security Line

Menu Rights

- Online NPA (Non Performing Assets)
- Maker & Checker Concept
- Bank Profile / Branch Profile
- Anti Money Laundering Reports (AML)
- Delivery Channels Support
- ATM / Point of Sale
- SMS Banking
- Internet Banking
- Mobile Banking
- Phone Banking
- Kiosk Banking (Touch Screen)

Interfaces

- ATM / POS interface as per ISO 8583 Standard
- Interface with Cheque book printing machine

- RTGS / NEFT interface
- Interface with Pigmy (daily deposit collection) machine
- CTS (Cheque Truncation System)
- Interface with Financial Inclusion / hand held devices
- Interface with MICR machine
- Customize Web Services to handle any third party interface
- Centralized Process
- Centralized day end / day begin
- Standing Order execution
- Interest Application
- Bulk file upload for transactions and account open
- Charges / Fees Application
- Non Performing Assets Management (NPA)
- Inward / Outward clearing process
- Cash Management
- Report generation

Banking Sector Reforms

Banking Sector Reforms

Reforms made to improve the performance of banking sector in India are as follows:

- Allowing private domestic and foreign players to enter banking, insurance and mutual funds sectors.
- Reducing the statutory liquidity ratio to 15 % and a progressive reduction in cash reserve ratio.

- De-regulating interest rates and lending rates for commercial banks
- Introducing capital adequacy norms to reduce non-performing assets of banks.
- Setting up special tribunals to speed up the process of recovery of loans.
- Nationalised banks allowed to raise funds from capital markets to strengthen their capital base.
- RBI issued guidelines to the banks pertaining to the issuance of debit cards and smart cards.
- The process of introducing computerisation in all branches of banks began in 1993

- Decontrol of Interest Rates and Credit
- Directed Credit
- Banking Supervision
- Increasing Competition through private and Foreign Banks
- To access the capital market for debt and equity
- Full disclosure of bank accounts
- Banking Ombudsman scheme introduced
- Free to fix their own foreign exchange open position limit
- Public ownership in PSB are reduced
- To bring quality and service encouraged Private and foreign banks
- Setting up CCIL

- •Capital base of the banks were strengthened by recapitalization, public equity issues and subordinated debt.
- •Prudential norms were introduced and progressively tightened for income recognition, classification of assets, provisioning of bad debts, marking to market of investments.
- •Pre-emption of bank resources by the government was reduced sharply.

•New private sector banks were licensed and branch licensing restrictions were relaxed.

•Detailed regulations relating to Maximum Permissible Bank Finance were abolished.

•Consortium regulations were relaxed substantially.

•Credit delivery was shifted away from cash credit to loan method.

•The enactment of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002 enabled the sale of financial assets to securitisation/ reconstruction companies.

•Credit Information Bureau (India) Ltd (CIBIL) was established in 2000 that paved the way for the enactment of the Credit Information Act in May 2005, for credit information of borrowers.

•FDI in the banking sector was brought under the automatic route, and the limit in private sector banks was raised from 49 percent to 74 percent in 2004.

•To boost infra financing CRR/SLR exemption announced for banks for funds raised via infra bonds

•RBI issues draft norms for payments and small banks; for the first time a process to issue differentiated licences initiated

•Prime Minister NarendraModi launches Pradhanmantri Jan DhanYojana

– a scheme for opening bank accounts to foster financial inclusion. More than 130 million accounts opened in a matter of five months

•Government issues ordinance to allow foreign firms to have 49 per cent stake in insurance companies, a decision that was stuck for several years.

•RBI brings out final guidelines on banks becoming insurance brokers.

•The government is mulling Indradhanush-II, expanding the scope of banking reforms to get rid of bad loans, manage risks better, bring millions of un- banked and under-banked people into the fold as well as create a holding company for the public sector banks (PSBs).

Techniques of Credit Control

What Is Credit Control

Credit Control

Definition: Credit Control is a function performed by the Central Bank (Reserve Bank of India), to control the credit, i.e. the demand and supply of money or say liquidity in the economy. With this function, the central bank regulates the credit granted by the commercial banks to its customers. It aims to achieve economic development with stability as well as to manage the inflationary and deflationary pressure.

It involves limiting the credit volume created by the commercial bank, regulating the credit volume, directing credit to productive uses, and implementing measures that strengthen the structure of banks.

Objectives of Credit Control

- To attain stability in the internal price level.
- To obtain stability in the foreign exchange rates, which maintains the external value of the currency.
- To maintain stability in the money market through liquidity control measures.
- To promote overall economic growth and development, by maximizing income, employment and output.
- To promote national interest.

The following points highlight the two categories of methods of credit control by central bank.

The two categories are: I. Quantitative or General Methods II. Qualitative or Selective Methods.

Methods of Credit Control

I. Quantitative or General Methods:

1. Bank Rate Policy:

- The bank rate is the rate at which the Central Bank of a country is prepared to re-discount the first class securities. It means the bank is prepared to advance loans on approved securities to its member banks.
- As the Central Bank is only the lender of the last resort the bank rate is normally higher than the market rate. For example: If the Central Bank wants to control credit, it will raise the bank rate.
- As a result, the deposit rate and other lending rates in the money-market will go up. Borrowing will be discouraged, and will lead to contraction of credit and vice versa.

2. Open Market Operations:

- In narrow sense, the Central Bankstarts the purchase and sale of Government securities in the money market.

- In Broad Sense, the Central Bankpurchases and sells not only Government securities but also other proper eligible securities like bills and securities of private concerns.

- When the banks and the private individuals purchase these securities they have to make payments for these securities to the Central Bank.

3. Variable Reserve Ratio:

a) Cash Reserves Ratio:

- Under this system the Central Bank controls credit by changing the Cash Reserves Ratio. For example, if the Commercial Banks have excessive cash reserves on the basis of which they are creating too much of credit,this will be harmful for the larger interest of the economy.

- So it will raise the cash reserve ratio which the Commercial Banks are required to maintain with the Central Bank.

Similarly, when the Central Bank desires that the Commercial Banks should increase the volume of credit in order to bring about an economic revival in the economy.

The central Bank will lower down the Cash Reserve Ratio with a view to expand the lending capacity of the Commercial Banks.

- Variable Cash Reserve Ratio as an objective of monetary policy was first suggested by J.M. Keynes. It was first followed by Federal Reserve System in United States of America.

- The commercial banks as per the statute has to maintain reserves based on their demand deposit and fixed deposit with central bank is called as Cash Reserve Ratio.

- If the CRR is high, the commercial bank's capacity to create credit will be less and if the CRR is low, the commercial bank's capacity to create credit will be high.

b) Statutory Liquidity Ratio:

Statutory Liquidity Ratio (SLR) is the amount which a bank has to maintain in the form of cash, gold or approved securities. The quantum is specified as some percentage of the total demand and time liabilities (i.e., the liabilities of the bank which are payable on demand anytime, and those liabilities which are accruing in one month's time due to maturity) of a bank.

II. Qualitative or Selective Method of Credit Control:

The qualitative or the selective methods are directed towards the diversion of credit into particular uses or channels in the economy. Their objective is mainly to control and regulate the flow of credit into particular industries or businesses. The following are the frequent methods of credit control under selective method:

1. Rationing of Credit
2. Direct Action
3. Moral Persuasion
4. Method of Publicity
5. Regulation of Consumer's Credit
6. Regulating the Marginal Requirements on Security Loans

1. Rationing of Credit

This is the oldest method of credit control. Rationing of credit as an instrument of credit control was first used by the Bank of England by the end of the 18th Century. It aims to control and regulate the purposes for which credit is granted by commercial banks. It is generally of two types.

a) The variable portfolio ceiling: Itrefers to the system by which the central bank fixes ceiling or maximum amount of loans and advances for every commercial bank.

b) The variable capital asset ratio: Itrefers to the system by which the central bank fixes the ratio which the capital of the commercial bank should have to the total assets of the bank.

2. Direct Action

Direct action against the erring banks can take the following forms.

a) The central bank may refuse to altogether grant discounting facilities to such banks.

b) The central bank may refuse to sanction further financial accommodation to a bank whose existing borrowing are found to be in excess of its capital and reserves.

c) The central bank may start charging penal rate of interest on money borrowed by a bank beyond the prescribed limit.

3. Moral Suasion

This method is frequently adopted by the Central Bank to exercise control over the Commercial Banks. Under this method Central Bank gives advice, then requests. and persuades the Commercial Banks to co-operate with the Central Bank in implementing its credit policies.

4. Publicity

Central Bank in order to make their policies successful, take the course of the medium of publicity. A policy can be effectively successful only when an effective public opinion is created in its favour.

5. Regulation of Consumer’s Credit:

The down payment is raised and the number of installments reduced for the credit sale.

6. Changes in the Marginal Requirements on Security Loans:

- This system is mostly followed in U.S.A. Under this system, the Board of Governors of the Federal Reserve System has been given the power to prescribe margin requirements for the purpose of preventing an excessive use of credit for stock exchange speculation.

- This system is specially intended to help the Central Bank in controlling the volume of credit used for speculation in securities under the Securities Exchange Act, 1934.

- The Repo Rate and the Reverse Repo Rate are the frequently used tools with which the RBI can control the availability and the supply of money in the economy. RR is always greater than RRR in India

Repo Rate: (RR)

- The rate at which the RBI is willing to lend to commercial banks is called Repo Rate. Whenever banks have any shortage of funds they can borrow from the RBI, against securities.

- If the RBI increases the Repo Rate, it makes borrowing expensive for banks and vice versa. As a tool to control inflation, RBI increases the Repo Rate, making it more expensive for the banks to borrow from the RBI. Similarly, the RBI will do the exact opposite in a deflationary environment.

Reverse Repo Rate: (RRR)

- The rate at which the RBI is willing to borrow from the commercial banks is called reverse repo rate.

- If the RBI increases the reverse repo rate, it means that the RBI is willing to offer lucrative interest rate to banks to park their money with the RBI.

- This results in a decrease in the amount of money available for banks customers as banks prefer to park their money with the RBI as it involves higher safety. This naturally leads to a higher rate of interest which the banks will demand from their customers for lending money to them.

Innovation in Banking: E-Banking - Delivery Channels - ATM - EFTPOS - Phone Banking -Internet Banking - SMS Banking - Mobile Banking - Credit/Debit Cards - Smart Cards - UPI -Bancassurance.

NewTechnologyinBanking

- Banking today is a flourishing industry, focused on technological innovation. Internet banking has emerged as the biggest focus area in the "Digital Transformation" agenda of banks.

- Banks have changed in their operations and moved towards universal banking along with the increased usage of technology and technology- based services offering alternate channels such as smart cards, ATMs, usage of the internet, mobile and social banking.

- In 2012-13, Indian banks deployed technology- intensive solutions to increase revenue, enhance customer experience, optimize cost structure and manage enterprise risk.

- Majority of banks are insisting on cashless and paperless payment modes. However, there is a wide variation in the technology agendas and implementation capability across different players of the banking industry. Following are the salient features of banking on technology

Internet Banking

The shift towards internet banking is fuelled by the changing dynamics in India. By 2020 the average age of India will be 29 years and this young consumer base is internet savvy and wants real time online information. Therefore, Indian banks need to aspire high and move toward implementing a world class internet banking capability.

Business Intelligence

India's banking industry is on the edge of a major transformation, with new banking licenses expected to bring more players in acompetitive environment. In such an environment, banks across India are increasingly adopting business intelligence (BI) and analytics to drive their overall profitability. RBI has also encouraged banks to adopt BI to increase transparency and control over the banking business. The Automated Data Flow (ADF) initiative has been a strategic step in this direction, seeking to ensure submission of correct and consistent data from banks' systems to the RBI without any manual intervention.

Risk Management and Information Security

The Indian Bank's Association (IBA) survey and EY analysis reveals that Core Banking System (CBS) is widely used across the banks for transaction management. However, its integration with risk management and other enterprise level applications is still at preliminary stages. Some key risk management methods include:

- Credit systems

- Enterprise Risk Management Systems

- Liquidity risk systems

With the advent of mobile computing, social media, cloud computing and increasing sophistication of hackers it is evident that the risk environment is changing. With more and more cases being registered under the IT Act 2000, banks can no longer ignore privacy of customers.

Technology in Training and E-learning

The last decade, which marks the era of liberalization and reforms in the country, has been an eventful one for the banking sector. The increase in investment on

training and development by banks in India is caused by a variety of motives.These include - new technology adoption, productivity, responding to skills deficiencies, new hire inculcation, and staff performance management.

Financial Inclusion

The spread of digital connectivity and mobile phones have created attractive opportunities in the Indian financial inclusion landscape. In particular, technology promises to enable hundreds of millions of people to access financial services for the first time due to its wide reach, convenience and low cost of delivery.

India is experimenting with several new ideas in financial inclusion in almost all areas requiring immediate focus - banking and payment channels, technology platforms, regulatory etc.

The six cornerstones pillars of financial inclusion

The six cornerstones pillars of financial inclusion The ability of technology to bring services to people wherever they are and whenever they need them is the biggest driver of achieving comprehensive financial inclusion.

Electronic payments are accelerating this drive, and new developments, including Big Data, ubiquitous internet access and cloud computing, are expected to have enormous impact.

Regulators should consider relaxing restrictions in areas that disproportion ally affect unbanked customers, e.g., through KYC, agent banking and mobile banking.

Interoperability can create value for customers to attract large volumes

Keeping pace with technology changes in the financial inclusion space will require significant investments in the regulatory capacity and changes made in regulatory processes.

Government can incentivize service providers to introduce technologyenhanced business models that improve last mile delivery by deploying their own resources, e.g., DBT payments and universal service funds.

Mobile Banking

Mobile banking continues to be a focus area for all banks in India. Our survey indicates that they are not only looking at this channel as a way to increase their customer engagement in urban areas, but also to reach out to new ones in rural regions.

Payment Systems

In the last decade, India has seen a shift from traditional payment methods, i.e., cash/paper-based payments to modern electronic payment systems. However, 97% of payment transactions for public sector banks are paper based as compared to

60% for private sector banks. In the recent past, the RBI has taken multiple steps to promote electrification of payment instruments such as:

- Framing the Payment & Settlements Systems Act to provide for the regulation and supervision of payment systems in India.
- Providing robust RTGS/NEFT platform, establishing National Payments Corporation of India (NPCI) to act as an umbrella institution for all the retail payment systems.
- Regulation and promotion of acceptance channels including ATMs, POS and payment gateway policy.
- Issuance guidelines and security measures for all card transactions.

A debit card is another way to make banking transactions electronically. In addition to using it at ATMs, you can use a debit card to pay for goods you purchase in many stores. You must have the money in your account at the time of purchase. The amount of your purchase is deducted from your account immediately. You will receive a regular statement from the bank, showing the total amount deducted from your account and your remaining balance.

A debit card looks just like a regular ATM card, and you can use it at ATMs. The difference is that a debit card has a Visa® or Mastercard® logo on its face. That means you can use a debit card wherever Visa® or Mastercard® debit cards are accepted, for example, department stores, restaurants, or online. ATM and debit cards are also a convenient way to make purchases without carrying cash that help you keep better track of the money you spend.

Credit is a method of selling goods or services without the buyer having cash in hand. A credit card is only an automatic way of offering credit to a consumer. A credit card is basically a plastic card with a magnetic strip invented with the intention to simplify the complicated banking process for an individual in case he/she is short of cash, be it something casual like shopping or something severe like an emergency situation.

Internet Banking

Internet banking (or E-banking) means any user with a personal computer and a browser can get connected to his bank's website to perform any of the virtual banking functions. In internet banking system the bank has a centralized database that is web-enabled. All the services that the bank has permitted on the internet are displayed in menu. Any service can be selected and further interaction is dictated by the nature of service. Internet banking is assessable via a computer or mobile phone also known as online banking.

Internet banking through traditional banks enables customers to perform all routine transactions, such as account transfers, balance inquiries, bill payments and stop payment requests and some even offer online loan and credit card applications. Account information can be accessed anytime, day or night and can be done from anywhere. A few online banks update information in real time, while others do it daily. Once information has been entered, it doesn't need to be re-entered for similar subsequent checks and future payments can be scheduled to occur automatically.

Internet Banking in India

The Reserve Bank of India constituted a working group on Internet Banking. The group divided the internet banking products in India into 3 types based on the levels of access granted. They are:

- Information Only System: General purpose information like interest rates, branch location, bank products and their features, loan and deposit calculations are provided on the banks website. They provide facilities for downloading various types of application forms. The communication is normally done through e-mail. There is no interaction between the customer and bank's application system. No identification of the customer is done. In this system, there is no possibility of any unauthorized person getting into production systems of the bank through internet.

- Electronic Information Transfer System: This system provides customer- specific information in the form of account balances, transaction details, and statement of accounts. The information is still largely of the 'read only' format. Identification and authentication of the customer is through password. The information is fetched from the bank's application system either in batch mode or off-line. The application systems cannot directly access through the internet.

- Fully Electronic Transactional System: This system allows bi-directional capabilities. Transactions can be submitted by the customer for online update. This system requires high degree of security and control. In this environment, web server and application systems are linked over secure infrastructure. It comprises technology covering computerization, networking and security, inter-bank payment gateway and legal infrastructure.

Services through E-Banking

Customers can avail following services through E-banking.

- Bill payment service : You can facilitate payment of electricity and telephone bills, mobile phone, credit card and insurance premium bills as each bank has tie-ups with various utility companies, service providers and insurance companies, across the country. To pay your bills, all you need to do is complete a simple one-time registration for each biller. You can also set up standing instructions online to pay your recurring bills, automatically. Generally, the bank does not charge customers for online bill payment.

- Fund transfer: You can transfer any amount from one account to another of the same or any another bank. Customers can send money anywhere in India. Once you login to your account, you need to mention the payee's account number, his bank and the branch. The transfer will take place in a day or so, whereas in a traditional method, it takes around three working days.

- Credit card customers: With Internet banking, customers can not only pay their credit card bills online but also get a loan on their cards. If you lose your credit card, you can report of lost card online.

- Investing through Internet banking: Anyone can now open an FD online through funds transfer. Now, investors with interlinked demat account and bank account can easily trade in the stock market and the amount will be automatically debited from their respective bank accounts and the shares will be credited in their demat account. Moreover, some banks even give you the facility to purchase mutual funds directly from the online banking system. Nowadays, most leading banks offer both online banking and demat account. However, if you have your demat account with independent share brokers, then you need to sign a special form, which will link your accounts

- Recharging your prepaid phone: Now just top-up your prepaid mobile cards by logging in to Internet banking. By just selecting your operator's name, entering your mobile number and the amount for recharge, your phone is again back in action within few minutes.

- Shopping: With a range of all kind of products, you can shop online and the payment is also made conveniently through your account. You can also buy railway and air tickets through Internet banking.

Automated Teller Machine (ATM)

An automated teller machine (ATM) is a computerised machine that permits bank customers to gain access to their accounts with a magnetically encoded plastic card and code number. It enables the customers to perform several banking, operations without the help of teller, such as to withdraw cash, make deposits, pay bills, obtain bank statements and cash transfers. It is also called automated banking machine or remote service unit.

Maganetic Ink Character Recognition

MICR stands for Magnetic Ink Character Recognition. It is a technology which allows machines to read and process cheques enabling thousands of cheque transactions in a short time.Actually, the MICR is the name given to the technology used in printing the code. In India in 1980 this unique system of MICR based cheque clearing system was introduced first time. Apart from being a security bar code to protect your transaction, the MICR code is also an indispensable part for online money transfers. Every bank branch is given a unique MICR code and this helps the RBI to identify the bank branch and speed up the clearing process. MICR code is usually a nine digit code comprising of some important information about the transaction and the bank.

The first three digits in the MICR code represent the city code that is the city in which the bank branch is located. In most cases it is in line with the PIN code of the postal addresses in India. The next three digits stand for the bank code while the last three digits represent the bank branch code.

For example, if you have an account with Axis Bank,New Delhi (Defence Colony) then its nine digit MICR code will be 110211004 where:

- 110, the first three digits representing the city code for New Delhi;
- 211, the next three digits representing the bank code for Axis bank;
- And 004, the last three digits representing the bank branch code for Defence Colony.

Delivery Channels

a key part of many delivery channels is a network of agents who conduct transactions on the behalf of providers and brand the network accordingly. Payment services can include person-to-person transfer; transfers between individuals and businesses;

and government transfer payments. Delivery channels include branches; field officers; automated teller machines (ATMs);

payment terminals;

point-of-sale devices; mobile branches; mobile phones; and internet banking (e-banking).

A major challenge is the need for interoperability so that providers within the same sector can recognize each other.

Banks and MNOs have negotiated interoperability agreements that allow their customers to transact beyond the markets they directly serve, but are hesitant to do so for mobile banking.

Alternative-delivery-channels-in-banking-sector

Change in banking sector has not only led to increase in the needs of the people but also it has changed shape of human life. Various alternative delivery channels in banking sector have changed day to day operation of the bank. With introduction of computer and internet facility in banking industry, all banks have adopted core banking solution (CBS) platform to deliver banking service. The use of internet and smartphone changed the physical appearance of the banking industry.

Alternative Delivery Channels in Banking Sector:

Different Types of Alternative Delivery Channels in banking Sector:

1. Internet Banking:
2. Mobile Banking:
3. UPI – Unified Payments Interface:PAYTM, GOOGLE PAY etc
4. E-Wallet:
5. ATM, Debit card and Credit Card

THE USES OF INTERNET BANKING

- ✓ By internet banking customer can avail all banking facilities. Here are some uses of internet banking-
- ✓ Reduce frequent visit to branch: As internet banking makes the banking transaction at your finger tip, it reduces frequent visit of bank branch.
- ✓ Fund Transfer: It allows you to transfer fund from your own account to others account as well as to your own other bank account.
- ✓ Online account opening: Through internet banking you can open new saving account, fix deposit, RD PPF account as well as Demat account online to invest in the shear market. Also you need not to deposit required documents in bank as the bank representative visits your home and complete the documentation process.
- ✓ Utility Bill Payment: You can pay all your daily utility bill online like light bill, gas bill, mobile and dish TV recharge etc.
- ✓ New Cheque Book Request: Now ordering new cheque book has become easy through internet banking. Using this you can request new cheque book for your account with one click.
- ✓ Easy to monitor transactions in account: It allows you to monitor the ongoing transactions in your account. You can also extract account balance and statement of account
- ✓ Others: It also used to make online purchase and payment, request any other banking facilities from the bank, payment of income tax, online DD and you can register any complaint online. The other uses include collection of information about your loan and other accounts, life insurance, auto insurance and other online services as well as purchasing product.
- ✓ (ADC) means that channels which act as intermediaries between bank and customer and leads to expand movement and execution of banking services. These channels may be media, tools or any application through which customer can perform their banking operations. From banks point of view these Alternative Delivery channels will help bank to reach wild range of customer across the country. Also banks get higher points with lower operational and transaction cost. Digital banking and electronic banking are the most performing area of this Alternative Delivery Channel (ADC). With the help of these alternative delivery channels in

banking sector, all the banks try to bring the banking service to every individual with object to provide 24x7 banking and providing banking system to unbanked.

2. Mobile Banking:

Mobile banking is most popular method of banking, which assists you to initiate the banking operations on your mobile phone. All banks are providing their mobile banking application to their customer. You can use mobile banking for instant fund transfer, payment of bill, view account balance etc.

At the time of demonetization when the banks were crowded mobile banking was the first preference from people for cashless transaction. In the view of this change and need for cash, the present Prime Minister ShriNarendraModi appealed people to increase digital transaction under Digital India. People also responded and mobile banking got a new impetus from demonetization. Mobile banking is considered to be simpler and more convenient method than any other method of transaction.

Use of Mobile Banking:

Compare to online banking mobile banking is considered to be easy and safe. Following are the services available with mobile banking –

Easy to access account information: This is the primary service provided through mobile banking. Thus with the app available in your mobile you can better manage your fund. With mobile app you can view your account balance, your transaction history, get e-statement i.e. your loan statement or credit card statement.

Fund transfer: this is most used and in demand facility available with the mobile banking. You can transfer fund by just adding the beneficiary or by UPI (Unified Payment Interface). This fund transfer include – fund transfer to self or bank to bank fund transfer, third party fund transfer like rent payment , standing instruction to loan or other accounts, fund transfer through NEFT, RTGS/IMPS /MMID etc.

Other Services: opening of deposit account like SB/CD/FD and RD accounts investment in mutual funds, Bill payments, login your complaint, queries or suggestions, tracking your complaint. It also provides facility to order new cheque book, cancelling or stop payment of cheque etc.

Precautions while using Mobile Banking:

As compare to online banking, mobile banking can lead to more phishing or fraud. Hence keeping safety of customers all banks have comes up with some important tips for secure mobile banking.

While using mobile banking set PIN or password to open app.

To receive banking transaction alert register your mobile number and email Id in account. If both are not updated since long, see it is updated.

Do not open any URL in the mobile massage, unless you sure.

If you are going to repair your mobile or let someone use it, first you have to delete browsing history, clear cache and delete temporary file from your mobile. This is because detail of your account may be saved in these files.

Do not save any important information received from your bank on mobile.

Link mobile anti-malware or antivirus software to your smart phone.

Never use auto fill option. Do not save your ID and password any were in the mobile.

Enable more feature on your mobile like encryption enabled, remote wipe and location tracking.

3. UPI – Unified Payments Interface:

Deliberate efforts are being made at the government level to promote alternative delivery channels in the banking sector. Due to the complexities in the use of internet banking and mobile banking the use of these alternative delivery channels in the banking sector has been limited to few people. Due to this simple methods like UPI and Bhim have been made available to the customers by the Government of India in the form of Mobile Banking. UPI is real type system of payment developed by NPCI (National Payment Corporation of India) and controlled by RBI and Indian Bank Association. UPI is a multi-banking system through which customer can not only transfer money but also send request for money. To use UPI, the customer has to create his own UPI virtual ID (payment address) therefore; this UPI ID can be easily identified by another transferor.

How does UPI work?

UPI is a digital platform and allows you to instant transfer of fund from one account to another via your mobile. As it is real time instant transfer system takes very less time than NEFT. While instant transfer IFSC Code, mobile number and virtual Id should have to be correctly mention. The four digits MPIN is used for confirmation of each transaction thus increase the security of the transaction.

- **E-Wallet:**

In today's age of smart phones, young generation is preferring e-wallet instead of their ATM and Debit card. E-wallet has become a great option for cashless payment. E-wallet is also known as Digital wallet and it is electronic software or online service that allows you to transfer fund electronically to other. It also facilitates storage of entire information of your bank account and reduces the need to enter account detail at the time of online payment.

For this, the customer has to install the e-wallet application and link it with his own bank account, after which the customer can make any type of payment through that wallet.

How much money can be deposited in e-wallet?

If the customer does not want to link his bank account to wallet, then he can use the option of cash deposit. Most companies have a cash deposit limit of Rs. 10000/ - but as per RBI instructions, this limit is increased to Rs100000/- if the customer uploads his KYC in this wallet.

- **Types of E-wallet:**

1. Closed wallet: In this case, if you return the product to a company, the company deposits the money of the product in your close wallet. This money cannot be spent by you but the money is used only to buy other products of the same company.

2. Semi closed wallet: In this wallet you can neither deposit nor withdraw money but this money is used to pay for the purchase of any company's product.

4. Open wallet: In this type of wallet you can deposit money as well as withdraw money. The wallet is linked to your bank account and such wallets are given to the customer by the banks. The biggest advantage of this wallet is that if you return an item to the company, the company immediately deposits your money in your bank account.

- **Phone Banking, Tele-Banking:**

- ✓ It is matter of surprise that many people are using mobile or phone banking without knowing that restricted services are being provided to them. Like ATM it is another electronic banking Channel which provides round the clock 24 hours banking for the customers. You deposit some amount in cash or through cheques a SMS shall flash on your mobile informing that such and such amount has been credited in your such and such account.

- ✓ Likewise the moment any withdrawal is made from your account a similar message shall be sent on your mobile. This phone banking is one part that banks are doing themselves to keep their customers updated about the transactions of their respective accounts.

- ✓ On the other part customers can approach to their banks and request for using the Phone banking or tele-banking. The bank shall enable its customers with their computerized system of IVR. This IVR technology is known as Interactive Voice Response which automates interactions with telephone callers.

- ✓ Banks are increasingly turning to IVR to reduce the cost of services, inquiries and support calls. The system is enabled with input and responses to be gathered via spoken words with voice recognition.

- ✓ The IVR solutions enable users to retrieve information from banks or are send information, requests and make queries. With the invention of IVR the practice of phone banking is increasing day by day because it helps in accessing the bank services from anywhere like Home, Office, Workplace or anywhere else.

- ✓ The banks computers are connected with telephone (IVR is phone technology) and the telephone is linked with the modem. The customers are identified by a code word/keyword (in case of ATM it is PIN) after due identification of the callers a suitable reply or solution is sent on phone. With the help of phone banking the customers may get reply of their enquiries or services without going to bank.

- ✓ IVR system also contains pre-recorded solutions. In case of Land Line the customer after dialing to the bank receives the guided instructions to proceed further like keying his/her account number. For identification six digit date of birth is also to be dialed.
- ✓ IVR system provides number for availing the service. Each number pertains to different service. The customer has to press the number of desired service. Than IVR indicates further actions and following the same a customer can get the desired service.

Services provided through Phone banking are limited like:

1. Asking for account balance,

2. Status of a cheque deposited for collection,

3. Request for cheque book or statement of account,

4. Record stop payments, and

5. Information on bank products.

Off course enquires relating to banking services are also attended.

In case of Mobile banking a set of text messages or SMS can be used. Bank balance, cheque status, status of loan applications can be obtained through this system. As already stated the banks send SMS on mobile to keep its customers informed about any type of transaction in their accounts.

It is under active consideration of RBI to provide mobile banking services for transfer of amounts also. It approved it would be within reach of everyone to transact banking business through mobile phones in near talkes.

EFTPOS (electronic funds transfer at the point of sale) a system for paying for the purchase of goods and services involving the use of at CREDIT CARD (e.g. Visa) or bank debit card (e.g. Switch). The customer's card is ‘swiped’ across a machine at the till with details of the purchase being transmitted down an electronically connected line to the EFTPOS processing centre for authorization. The advantage of EFTPOS is that like a cheque it removes the need to pay in ready cash, but more particularly computerization of transactions cuts down on the amount of physical paperwork undertaken and related costs.

Electronic Funds Transfer at Point of Sale; a system in Britain for paying for goods without using cash or cheques. The buyer’s DEBIT CARD or CREDIT CARD is put into a special machine connected to a central computer that automatically takes money out of their account and puts it into the seller’s account

Services Available Under SMS Banking

->SMS facility for simple and easy to use banking facility for the information based banking service like balance enquiry, mini statement or status on a cheque and many more.

SMS Banking now offers:

Information Services - You can now check your bank account and credit card information using the keywords

Transaction Alerts – Bank account and credit card alerts are sent to your registered mobile number. You will also receive a consolidated email outlining all your transactions

SMS Banking available for joint account holders?

SMS Banking is now available for joint account holders. Both account holders will receive transaction alerts for their account.

Register For SMS Banking

You now register for SMS Banking through our online and phone banking facilities, or by visiting any branch or ATM. Registration through online and phone banking is completed instantaneously, however registration through other channels takes 5 working days

charge for SMS Banking?

The SMS Banking facility is absolutely free. Customers are charged only for sending a message to the number, which will be charged by your mobile operator as per your billing plan.

activate SMS Banking for multiple accounts--.You can now access SMS Banking for all your bank accounts and credit cards. Simply check the information in the table above.

Features

It provides various services like balance enquiry, mini statement or status of a cheque and many more.

Customers having their mobile number already registered in CBS can avail this service, no separate registration is required.

Customers of our Bank can avail the services by sending SMS from their registered mobile number on 8422009988 with message as under. Charges applicable for this service for each SMS sent by the customer.

The application is designed such that upon receiving the request from the customers, system will fetch the account numbers in which the sender's mobile is registered and if the last four digits of such accounts match with the last four digits received in the message, the response to the request will be sent back to the sender's number.

In case the last four digits of account number do not match with four digits sent by the customer, appropriate error message will be sent back to the sender's mobile number, provided the mobile number is registered. In case the sender's mobile number is not registered, no response will be sent back.

Function SMS text

Balance Enquiry BAL < space="" /> Last 4 digit of account numberE.g. if account number is 17610400000811 type:

BAL 0811

Mini Statement MINI < space="" /> Last 4 digit of account numberE.g. if account number is 17610400000811 type:

MIN 0811

Registration of Preferred account number – If more than one account is linked with the same mobile number and customer want to avail Mini Statement service through missed call service REG < space="" /> Last 4 digit of account noE.g. if account number is 17610400000811 type:

REG 0811

Cheque Status CHEQ < space="" /> Last 4 digit of account number < space="" /> Cheque No.

E.g. if account number is 17610400000811 and cheque number is 006789 type:

Cheq 0811 006789

Un-subscribing SMS alert facility DEACT < space="" /> Last 4 digit of account number

E.g. if account number is 17610400000811 type:

DEACT 0811

Subscribing SMS alert facility (for A/c where customer had unsubscribed the facility earlier) ACT < space="" /> Last 4 digit of account numberE.g. if account number is 17610400000811 type:

ACT 0811

Subscribing SMS alert facility (for A/c where customer had unsubscribed the facility earlier) ACT < space="" /> Last 4 digit of account numberE.g. if account number is 17610400000811 type:

ACT 0811

Definition of 'Bancassurance'

Definition: Bancassurance means selling insurance product through banks. Banks and insurance company come up in a partnership wherein the bank sells the tied insurance company's insurance products to its clients.

Description: Bancassurance arrangement benefits both the firms. On the one hand, the bank earns fee amount (non interest income) from the insurance company apart from the interest income whereas on the other hand, the insurance firm increases its market reach and customers. The bank acts as an intermediary, helping insurance firm reach its target customer in order to increase its market share.

- Bancassurance refers to the agreement between a bank and an insurance company through which the bank sells the insurance product of the concerned insurance company to its customers. This is an arrangement through which both the bank and the tied insurance company can gain significant profits.
- The insurance company has the benefits of selling its products to a wider base of customers without having to pay broker commission which helps to increase the sales of the company by giving such companies a larger market exposure. The bank on the other hand benefits by gaining the additional revenue which is earned by selling the insurance product of the tied insurance company.
- The primary role that the bank plays in the bancassurance arrangement is to act as an intermediary for selling the insurance product of the insurance company and helping the company to achieve a large customer base and improve its reach in the market.
- Over the years, bancassurance has also been subject to a lot of controversies with many opponents arguing that such an arrangement gives too much control to the banks over the finance sector and hence should not be entertained. With this objective, a few countries have also banned bancassurance. Even so, it has not stopped the global growth of bancassurance.

Advantages of Bancassurance

- ✓ Bancassurance is an arrangement between banks and insurance companies through which the insurance companies can sell their products to the bank's customers. Such arrangement comes with a lot of advantages which are as follows:
- ✓ It is convenient for the customers as they can get access to different insurance policies through their bank.
- ✓ Banks benefit from this arrangement as they get the added revenue that is earned by selling the insurance policies.
- ✓ Insurance companies get a wider customer base and larger market reach through bancassurance.
- ✓ This arrangement brings profits to both the parties involved due to which it is growing globally.
- ✓ Bancassurance Products
- ✓ Banks, through bancassurance channels, typically focus on selling life insurance products because they generally command a higher price than non-life insurance products.
- ✓ Moreover, banks can find and promote the most suitable life insurance for customers based on their credit and personal needs.

Challenges

- Bancassurance requires both banks and insurance companies to work together; however, it is not an easy task to integrate the business operations of two sectors.

- In bancassurance, insurance companies lack direct control over the selling of their products. It can be harder to manage marketing strategies. For example, it can be difficult for insurance companies to target the right customers.

- For banks, their employees need to learn about insurance products, which requires a larger workload and training. In the case of multiple bancassurance agreements, bank advisors may have conflict incentives. They may recommend one product over another out of self-interest. It is also difficult to define who should take legal responsibility in case of customer disputes.

- To solve the problems, banks and insurance companies need to align their objectives. Moreover, insurance companies can provide sales training for bank employees. This helps to achieve mutual goals and reduce miscommunication.

Going Digital

Digitalization is significantly impacting the bancassurance business model, and banks are slowly moving their bancassurance business online.

The internet reduces the gap between the product developer and customers. In this sense, banks can lose their network advantages in the bancassurance agreement. Moreover, insurance companies can collect customer behaviors online to tailor products more personally suitable to customers.

Digitalization challenges both banks and insurance companies to refine their bancassurance agreement. They need to respond to the change together and transform the way they serve their clients.

II UNIT

IIUNIT-> COMMERCIAL BANKING OPERATIONS

Banking operations: Payment and Settlement system – New Age Clearing – New Age Payment – RTGS – NEFT – SWIFT – NTGS – KYC Norms and Anti – Money Laundering - FEMA

Electronic Funds Transfer

With the emergence of internet and mobile banking and the emerging e-commerce opportunities, banks too have marched ahead with introducing the concept of electronic funds transfer, which is much more convenient and hassle free. Electronic funds transfer allows you to exchange funds between individuals as well as organizations via electronic gateways which can be accessed using internet, computers and smart phones. Funds can be transferred instantly from one account to another, either within the same bank or to a different bank network at any given time.

Electronic funds transfer is a much more preferred money transfer option as it allows customersto make money transfers at the comfort of their homes using integrated banking tools such as internet and mobile banking.

Types of Electronic Funds Transfer

Following are the different types of electronic funds transfer

National Electronic Funds Transfer (NEFT)

The National Electronic Funds Transfer is a nation-wide money transfer system which allows customers with the facility to electronically transfer funds from their respective bank accounts to any other account of the same bank or of any other bank network. Not just individuals but also firms and corporate organizations may use the NEFT system to transfer funds to and fro.

Funds transfer through NEFT requires a transferring bank and a destination bank. With the RBI organizing the records of all the bank branches at a centralized database, almost all the banks are enabled to carry out an NEFT transaction. Before transferring funds via NEFT anyone has to register the beneficiary, for receiving the funds.

Real Time Gross Settlement (RTGS)

Real Time Gross Settlement as the name suggests is a real time funds transfer system which facilitates you to transfer funds from one bank to another in real time or on a gross basis. The transactions are *not put on a waiting list and cleared out instantly. RTGS payment gateway, maintained by the Reserve Bank of India makes transactions between banks electronically. The transferred amount is instantly deducted from the account of one banks and credited to the other bank's account.*

Users such as individuals, companies or firms can transfer large sums using the RTGS system. The minimum value that can be transferred using RTGS is Rs. 2 Lakhs and above. However there is no upper cap on the amount that can be transacted.

The remitting customer needs to add the beneficiary and his bank account details prior to transacting funds via RTGS. A beneficiary can be registered through your internet banking portal. The details required while transferring funds would be the beneficiary's name; his/her account number, receiver's bank address and the IFSC code of the respective bank. On successful transfer the Reserve Bank of India acknowledges the receiver bank and based on this the both the remitting bank as well as the receiving bank may/ may not notify the customers.

Immediate Payment Service (IMPS)

Majority of the funds transferred using electronic channels are processed via NEFT or RTGS. But as the funds could only be cleared in batches using these transfer gateways, the National Payments Corporation of India introduced a pilot mobile payment project also known as the Immediate Payment Service (IMPS). IMPS offers instant electronic transfer service using mobile phones.

IMPS interbank transferservice is available 24X7 and allows you to use your mobile phones to access your account and to authorize transfer of funds between accounts and banks. The IMPS service also features a secure transfer gateway and an immediate confirmation on fulfilled orders.

IMPS is offered on all the cellular devices via Mobile Banking or through SMS facility. For transferring money via IMPS route you must first register for the immediate payment services with your bank. On obtaining the Mobile Money Identifier (MMID) and MPIN from the bank you can login or make a request via SMS to transfer a certain amount to a beneficiary. Meanwhile the beneficiary must link his/her mobile number with his/her respective account and obtain the MMID from the bank to be able to receive money.

***SWIFT PAYMENT*->**

https://www.veem.com/?utm_source=youtube&utm_medium=video&utm_campaign=0919_SMBglobal

Need to transfer money overseas? Today, it is easy to walk into a bank and transfer money anywhere around the globe, but how does this happen?

Behind most international money and security transfers is the Society for Worldwide Interbank Financial Telecommunications (SWIFT) system. SWIFT is a vast messaging network used by banks and other financial institutions to quickly, accurately, and securely send and receive information, such as money transfer instructions

.SWIFT is a global member-owned co-operative and the world's leading provider of secure financial messaging services. SWIFT provides its community with a platform for messaging, standards for communicating.

->The Society for Worldwide Interbank Financial Telecommunication (SWIFT)

lends its name to an electronic messaging network, which is used globally by over 11,000 banking and securities organizations.

1 The SWIFT network handles a massive volume of messages – over 450 million financial messages transmitted and received, just in the month of July.

2 Customers using the SWIFT network can connect to it in a variety of ways: directly through permanently leased lines, through the Internet, or through SWIFT's own cloud service.

3 Most financial institutions, from broker/dealers, to commercial banks, custodian banks, transfer agents and foreign exchange brokers all utilize the SWIFT messaging network.

- SWIFT messages are used for various types of wire transfers of information: buying and selling of securities, corporate actions notifications and instructions, foreign exchange and international currency transfers, and more. SWIFT continuously seeks ways to > Lower Costs > Reduce Risks > Eliminate Operational Inefficiencies.

- How Do SWIFT Payments Work? SWIFT Payments allow consumers and businesses to easily send payments and currencies, from one bank to virtually any other bank in the world.

- For example, if the ABC Company from the United States would like to make a payment of US$100,000 to their supplier, XYZ Company in Australia, they would contact their local bank office, in United States.

- ABC Company would instruct its bank to send a payment, and would provide the name and account of the beneficiary (the person or business they are transferring currency to, in this case, XYZ Company), the amount to be transferred, and the receiving bank's SWIFT Code.

- Once ABC Company's bank receives the instruction (and confirms that it is legitimate), the bank then debits ABC's account of the US $100,000.

- It sends a SWIFT message to XYZ Company's bank in Australia, with the instruction to credit XYZ's account with US $100,000.

- XYZ Company can choose to have that US$100,000 exchanged, as a foreign currency exchange, into Australian Dollars, or keep it as U.S. Dollars to then be used to make payments to their own suppliers who prefer payment in U.S. Dollars

<u>What Is A SWIFT Code?</u>

A SWIFT Code is a unique identification code, to identify the specific bank to which the currency is being sent.

Often, the transferor’s bank representative will help the customer determine the correct code.

Pros and Cons of SWIFT Payments SWIFT Payments are generally an easy to use, safe and secure, and rapid way by which to make payments and transfer international currencies.

There are several security checks which must be performed when a SWIFT payment is initiated:

• The bank conducts checks to ensure fraud is not being committed by the sender (“Know Your Client” rules), and Anti Money Laundering (AML) checks as well.

• The receiving bank also conducts similar checks, to ensure the funds are being disbursed to the correct account.

This can add time to the process of sending and receiving the SWIFT Payment, and currency transfers can therefore sometime take two to three days.

These security checks are not always a guarantee that the person or business receiving the funds is not fraudulent, or that they will deliver the services or goods they are obliged to deliver. Currently, there are over 40,000 “live” Swift codes.

The "live" codes are for the partners who are actively connected to the Swift network. On top of that, there are more than 50,000 additional codes, which are used for manual transactions.

These additional codes are for the passive participants.

- The fees for SWIFT Payments can vary widely from bank to bank, and even from account to account within the same bank.
- Costs can be as low as zero (free) to over US$50 to send a SWIFT Payment, and there can also be costs associated with receiving the SWIFT Payment.
- These costs can add up, especially if the person or business sends multiple SWIFT Payments on a regular basis. If the amounts being sent are small, the costs can constitute a significant percentage of the funds being sent and received
- What is a SWIFT Code?
- When you use SWIFT, you are not actually sending a money transfer. Instead, it is referred to as a “payment order” between two banks. This is done using a SWIFT code.
- It was the SWIFT network that standardized the formats for IBAN (international bank account numbers) and BIC (bank identifier codes). SWIFT owns and administers the BIC system. This means it can identify a bank in seconds and send a secure payment quickly.
- A unique SWIFT code is comprised of 8 or 11 characters. Other names for this same code include:

- •Bank identifier code (BIC)
  • SWIFT ID
  • ISO9362

- Example of a Swift Code

- An example of a SWIFT code is the Italian bank UniCredit Banca in the city of Milan. The code is UNICRITMM.

- The first four characters (UNCR) is the bank code. The next two characters (IT) is the country code for Italy. Then the next two characters (MM) stand for the bank's location or city code. The last three characters (which you do not see here) are optional. They are only used by banks to assign codes to individual branches.

- Who Uses SWIFT Payments?

- In the beginning, SWIFT was created to facilitate communication about treasury and correspondent transactions only. The functionality of the message format design allowed for large scalability. SWIFT gradually expanded to provide services for:

- • Banks
  • Clearing systems
  • Money brokers and security broker dealers
  • Corporates
  • Non-bank financial institutions
  • Treasury market participants
  • Asset management companies • Depositories
  • Foreign exchange

Electronic Clearing Service (ECS) Credit

The Bank introduced the ECS (Credit) scheme during the 1990s to handle bulk and repetitive payment requirements (like salary, interest, dividend payments) of corporates and other institutions. ECS (Credit) facilitates customer accounts to be credited on the specified value date and is presently available at all major cities in the country.

During September 2008, the Bank launched a new service known as National Electronic Clearing Service (NECS), at National Clearing Cell (NCC), Mumbai. NECS (Credit) facilitates multiple credits to beneficiary accounts with destination branches across the country against a single debit of the account of the sponsor bank. The system has a pan-India characteristic and leverages on Core Banking Solutions (CBS) of member banks, facilitating all CBS bank branches to participate in the system, irrespective of their location across the country.

Regional *ECS (RECS)*

Next to NECS, RECS has been launched during the year 2009.RECS, a miniature of the NECS is confined to the bank branches within the jurisdiction of a Regional office of RBI. Under the system, the sponsor bank will upload the validated data through the Secured Web Server of RBI containing credit/debit instructions to the customers of CBS enabled bank branches spread across the Jurisdiction of the Regional office of RBI. The RECS centre will process the data, arrive at the settlement, generate destination bank wise data/reports and make available the data/reports through secured web-server to facilitate the destination bank branches to afford credit/debit to the accounts of beneficiaries by leveraging the CBS technology put in place by the bank. Presently RECS is available in Ahmedabad, Bengaluru, Chennai and Kolkata

Electronic Clearing Service (ECS) Debit

The ECS (Debit) Scheme was introduced by RBI to provide a faster method of effecting periodic and repetitive collections of utility companies. ECS (Debit) facilitates consumers / subscribers of utility companies to make routine and repetitive payments by 'mandating' bank branches to debit their accounts and pass on the money to the companies. This tremendously minimises use of paper instruments apart from improving process efficiency and customer satisfaction. There is no limit as to the minimum or maximum amount of payment. This is also available across major cities in the country.

Clearing Corporation of India Limited (CCIL)

CCIL was set up in April 2001 by banks, financial institutions and primary dealers, to function as an industry service organisation for clearing and settlement of trades in money market, government securities and foreign exchange markets.

The Clearing Corporation plays the crucial role of a Central Counter Party (CCP) in the government securities, USD –INR forex exchange (both spot and forward segments) and Collaterised Borrowing and Lending Obligation (CBLO) markets. CCIL plays the role of a central counterparty whereby, the contract between buyer and seller gets replaced by two new contracts - between CCIL and each of the two parties. This process is known as 'Novation'. Through novation, the counterparty credit risk between the buyer and seller is eliminated with CCIL subsuming all counterparty and credit risks. In order to minimize the these risks, that it exposes itself to, CCIL follows specific risk management practices which are as per international best practices.In addition to the guaranteed settlement, CCIL also provides non guaranteed settlement services for National Financial Switch (Inter bank ATM transactions) and for rupee derivatives such as Interest Rate Swaps.

CCIL is also providing a reporting platform and acts as a repository for Over the Counter (OTC) products.

Clearing Corporation of India (CCIL) – The CCIL functions as a central counterparty in financial market segments that are regulated by RBI.

- ❖ CCIL was set up and established in 2001 as a guaranteed platform for systemically important payment systems.
- ❖ The CCL acts as a CCP and also as a designated Trade Repository authorised by RBI. It performs CCP platform function in various segments such as government securities, USD-INR and foreign ex-change forwards, collateralised borrowing and lending obligations (CBLO).
- ❖ It also trade repository services, by providing non-guaranteed settlement in rupee-denominated interest rate swaps/Forward rate agreement (rupee-denominated) and cross-currency trade settlement through Continuous Linked Settlement (CLS).
- ❖ While its other function being acting as a trade repository (TR) in OTC derivative transactions. TR facilitates the clearing, settlement, and recording of **financial transactions.**
- ❖ **CCIL acts as CCP for trades executed on its platform, thereby ensuring guaranteed settlement with multilateral netting benefits. The settlements on (T+0 to T+2 basis**)

Principles of Financial Market Infrastructure

A Financial Market Infrastructure (FMI) is a multilateral system among participating institutions, including operators of the system.

The term FMI is used for the entities that are involved in clearing, settling, or recording financial transactions such as payments, securities, and derivatives. The international standards and best practices are set out by CPSS-IOSCO in principles of FMI (PFMI).

The RBI in line with international standards described designated FMIs and released a policy document on regulation and supervision of FMIs in India under its regulation on FMIs in 2013.

The PFMI stipulates public policy objectives, scope, and key risks in financial market infrastructures such as systemic risk, legal risk, credit risk, general business risks, and operational risk. Below is the table accommodating CPSS-IOSCO principles applicable to PMIs participating in payment systems.

The FMI Structure in India

The FMIs regulated by RBI currently are Real Time Gross Settlement (RTGS), Securities Settlement System for the government securities (SSS), Clearing Corporation of India (CCIL), and Negotiated Dealing System (NDS), and National Payment Corporation of India (NPCI). FMIs have not been defined explicitly under PSS Act. However, the criteria for declaring a payment system as an FMI is based on its potential to trigger or transmit systemic disruptions. The broad criteria's for determining system-wide systemic importance of payment system (SWSIPS) are:

- ❖ Volume and value of transactions processed/handled
- ❖ Share in the overall payment system

- Markets of operation
- Types and number of participants
- Degree of interconnectedness and interdependencies

CAPITAL ADEQUACY NORMS

Along with profitability and safety, banks also give do importance to Solvency. Solvency refers to the situation where assets are equal to or more than liabilities. A bank should select its assets in such a way that the shareholders and depositors' interest are protected.

1. Prudential Norms

The norms which are to be followed while investing funds are called "Prudential Norms." They are formulated to protect the interests of the shareholders and depositors. Prudential Norms are generally prescribed and implemented by the central bank of the country. Commercial Banks have to follow these norms to protect the interests of the customers.

For international banks, prudential norms were prescribed by the Bank for International Settlements popularly known as BIS. The BIS appointed a Basle Committee on Banking Supervision in 1988.

2. Basel Committee

Basel committee appointed by BIS formulated rules and regulation for effective supervision of the central banks. For this it, also prescribed international norms to be followed by the central banks. This committee prescribed Capital Adequacy Norms in order to protect the interests of the customers.

3. Definition of Capital Adequacy Ratio

Capital Adequacy Ratio (CAR) is defined as the ratio of bank's capital to its risk assets. Capital Adequacy Ratio (CAR) is also known as Capital to Risk (Weighted) Assets Ratio (CRAR).

- **India and Capital Adequacy Norms**

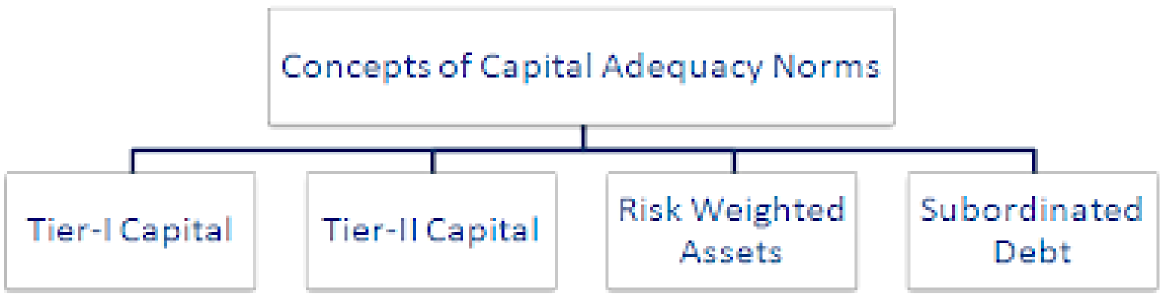
The Government of India (GOI) appointed the Narasimham Committee in 1991 to suggest reforms in the financial sector. In the year 1992-93 the Narasimhan Committee submitted its first report and recommended that all the banks are required to have a minimum capital of 8% to the risk weighted assets of the banks.

The ratio is known as Capital to Risk Assets Ratio (CRAR). All the 27 Public Sector Banks in India (except UCO and Indian Bank) had achieved the Capital Adequacy Norm of 8% by March 1997.

The Second Report of Narasimham Committee was submitted in the year 1998-99. It recommended that the CRAR to be raised to 10% in a phased manner. It recommended an intermediate minimum target of 9% to be achieved by the year 2000 and 10% by 2002.

Concepts of Capital Adequacy Norms

Capital Adequacy Norms included different Concepts, explained as follows :-



1. Tier-I Capital

Capital which is first readily available to protect the unexpected losses is called as Tier-I Capital. It is also termed as Core Capital.

Tier-I Capital consists of :-

1. Paid-Up Capital.
2. Statutory Reserves.
3. Other Disclosed Free Reserves : Reserves which are not kept side for meeting any specific liability.
4. Capital Reserves : Surplus generated from sale of Capital Assets.

2. Tier-II Capital

Capital which is second readily available to protect the unexpected losses is called as Tier-II Capital.

Tier-II Capital consists of :-

1. Undisclosed Reserves and Paid-Up Capital Perpetual Preference Shares.
2. Revaluation Reserves (at discount of 55%).
3. Hybrid (Debt / Equity) Capital.
4. Subordinated Debt.
5. General Provisions and Loss Reserves.

There is an important condition that Tier II Capital cannot exceed 50% of Tier-I Capital for arriving at the prescribed Capital Adequacy Ratio.

3. Risk Weighted Assets

Capital Adequacy Ratio is calculated based on the assets of the bank. The values of bank's assets are not taken according to the book value but according to the risk factor involved. The value of each asset is assigned with a risk factor in percentage terms.

Assets	Value	Risk Weight (%)	Value to be taken for CRAR
1) Cash and Cash with RBI	50 Crs	0	0
2) Loans and Advances	50 Crs	100	50 Crores
3) Investment in Government Securities	50 Crs	20	10 Crores
4) Other Assets	50 Crs	100	50 Crores
Total	200 Crs		110 Crores

Suppose CRAR at 10% on Rs. 150 crores is to be maintained. This means the bank is expected to have a minimum capital of Rs. 15 crores which consists of Tier I and Tier II Capital items subject to a condition that Tier II value does not exceed 50% of Tier I Capital.

4. Subordinated Debt

These are bonds issued by banks for raising Tier II Capital.

They are as follows :-

1. They should be fully paid up instruments.
2. They should be unsecured debt.
3. They should be subordinated to the claims of other creditors. This means that the bank's holder's claims for their money will be paid at last in order of preference as compared with the claims of other creditors of the bank.
4. The bonds should not be redeemable at the option of the holders. This means the repayment of bond value will be decided only by the issuing bank.

Under Basel III, the minimum capital adequacy ratio that banks must maintain is 8%. The capital adequacy ratio measures a bank's capital in relation to its risk-weighted assets

The capital-to-risk-weighted-assets ratio promotes financial stability and efficiency in economic systems throughout the world.

Basel III Capital Adequacy Ratio Minimum Requirement

- The capital adequacy ratio is calculated by adding tier 1 capital to tier 2 capital and dividing by risk-weighted assets.
- Tier 1 capital is the core capital of a bank, which includes equity capital and disclosed reserves.
- This type of capital absorbs losses without requiring the bank to cease its operations; tier 2 capital is used to absorb losses in the event of liquidation.
- As of 2017, under Basel III, a bank's tier 1 and tier 2 capital must be at least 8% of its risk-weighted assets.

- The minimum capital adequacy ratio (including the capital conservation buffer) is 10.5%. The capital conservation buffer recommendation is designed to build up banks' capital, which they could use in periods of stress.
- For example, assume Bank A has $5 million in tier 1 capital and $3 million in tier 2 capital. Bank A loaned $5 million to ABC Corporation, which has 25% riskiness, and $50 million to XYZ Corporation, which has 55% riskiness.
- Bank A has risk-weighted assets of $28.75 million ($5 million * 0.25 + $50 million * 0.55). It also has capital of $8 million, ($5 million + $3 million). Its resulting capital adequacy ratio is 27.83% ($8 million/$28.75 million * 100%). Therefore, Bank A attains the minimum capital adequacy ratio, under Basel III.

Basel III Minimum Leverage Ratio

- Another of the major capital standards changes of the Basel III Accord was a reduction in excess leverage from the banking sector. For these purposes, banking leverage means the proportion of a bank's non-risk-weighted assets and its total financial capital.
- The Basel Committee decided on new leverage measurements and requirements because it was deemed "complementary to the risk-based capital framework; and ensures broad and adequate capture of both the on- and off-balance sheet leverage of banks."
- The Basel Committee introduced new legislation to target and limit the operations of the so-called systematically important financial institutions (SIFIs).
- These are the classic too-big-to-fail banks, only on a global scale. In the United States, such banks are subject to intensive stress testing and excess regulations.
- The Fed doubled the capital requirements and leverage ratio minimums for eight SIFIs: JP Morgan Chase, Citigroup, Bank of America, Wells Fargo, Goldman Sachs, Morgan Stanley and Bank of New York Mellon.
- The Basel III leverage requirements were set out in several phases. The first phase involved bank-level reporting to supervisors and regulators in January 2013. These reports establish uniform component measurements among affected institutions.
- The second phase, public disclosure of leverage ratios, was set for January 2015. Two subsequent adjustment phases, one in 2017 and another in 2018, determine any calibrations or exceptions that are necessary.

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CREDIT RISK MANAGEMENT

- Credit risk refers to the probability of loss due to a borrower’s failure to make payments on any type of debt. Credit risk management is the practice of mitigating losses by understanding the adequacy of a bank’s capital and loan loss reserves at any given time – a process that has long been a challenge for financial institutions.
- The global financial crisis – and the credit crunch that followed – put credit risk management into the regulatory spotlight. As a result, regulators began to demand more transparency.
- They wanted to know that a bank has thorough knowledge of customers and their associated credit risk. And new Basel III regulations will create an even bigger regulatory burden for banks.
- To comply with the more stringent regulatory requirements and absorb the higher capital costs for credit risk, many banks are overhauling their approaches to credit risk.
- But banks who view this as strictly a compliance exercise are being short-sighted. Better credit risk management also presents an opportunity to greatly improve overall performance and secure a competitive advantage.

Challenges to Successful Credit Risk Management

- Inefficient data management. An inability to access the right data when it’s needed causes problematic delays.
- No group wide risk modelling framework. Without it, banks can’t generate complex, meaningful risk measures and get a big picture of group wide risk.
- Constant rework. Analysts can’t change model parameters easily, which results in too much duplication of effort and negatively affects a bank’s efficiency ratio.
- Insufficient risk tools. Without a robust risk solution, banks can’t identify portfolio concentrations or re-grade portfolios often enough to effectively manage risk.
- Cumbersome reporting. Manual, spreadsheet-based reporting processes overburden analysts and IT.

Best Practices in Credit Risk Management

❖ The first step in effective credit risk management is to gain a complete understanding of a bank's overall credit risk by viewing risk at the individual, customer and portfolio levels.
❖ While banks strive for an integrated understanding of their risk profiles, much information is often scattered among business units.
❖ Without a thorough risk assessment, banks have no way of knowing if capital reserves accurately reflect risks or if loan loss reserves adequately cover potential short-term credit losses.
❖ Vulnerable banks are targets for close scrutiny by regulators and investors, as well as unbearable losses.
  ❖ The key to reducing loan losses – and ensuring that capital reserves appropriately reflect the risk profile – is to implement an integrated, quantitative credit risk solution.
  ❖ This solution should get banks up and running quickly with simple portfolio measures.
  ❖ It should also accommodate a path to more sophisticated credit risk management measures as needs evolve.
  ❖ The solution should include:

➢ Better model management that spans the entire modelling life cycle.
➢ Real-time scoring and limits monitoring.
➢ Robust stress-testing capabilities.
➢ Data visualization capabilities and business intelligence tools that get important information into the hands of those who need it, when they need it

some major types of credit risks

- Now, banks can experience five major types of credit risks:
- During the repayment period, i.e. when the borrower does not repay the amount.
- When selling off a secured asset does not yield expected returns.
- In case when a series of repayments stop due to some unexpected reasons.
- Credit risk due to loss of funds while settling acquired securities.
- Risks while payment to offshore organizations when they are under sovereign jurisdiction.
- To offset such risks, banks must use various credit risk management tools and techniques. Let us look at some of those.
- Techniques and Tools for Credit Risk Management

Credit Approving Authority

Banks can create a multi-tier credit approving system where officers review the loan before sanctioning it. It can help reduce the chances of any new credit risk.

To maximize this benefit, banks can create a grid of officers, and they can operate on multiple levels of the organization i.e., regional offices, zonal offices, head offices, etc.

Additionally, the grid/committee could oversee the sanction of high-value loans by carefully assessing borrower creditworthiness.

To ensure the best quality of credit decisions, banks must review them periodically.

Banks can also use new-age Lending CRMs like LeadSquared to conduct pre-screening checks and analyze credit profiles while onboarding prospective borrowers.

Not only will this accelerate the screening process but will also maintain borrower credibility.

Prudential Limits

- Banks can set up prudential limits on various KPIs such as debt-equity and profitability ratio, debt service coverage ratio, and other important ratios.

- Further, they must ensure that the loan policy mentions the most permissible deviation that can be allowed from these KPIs.

- Based on the concentration risk, banks can also reduce their credit exposures to individuals who enjoy credit facilities excess of their capital threshold.

- Even while lending to industries, banks can set limits for every sector. Based on the stress on each segment, banks can adjust the exposure and lend with reduced risk.

- Banks can do this by limiting new advances against assets that can experience high price volatility and, hence credit risk.

- While lending to distressed sectors, banks must adequately back their credit by collaterals and strategic considerations.

- Prudential limits must be reviewed periodically. It will factor in other market-related issues and improve credit risk management.
- Risk Rating

- Rating borrower creditworthiness is standard practice across all financial institutions. However, banks can also create a separate risk scoring/rating method for internal purposes.

- It will give loan officers a clear understanding of the risks involved as time passes on.
- Risk rating will help banks understand individual credit behavior better and the overall risk within their portfolio.

- The rating can be designed on various quantitative and qualitative factors such as:
- Financial analysis
- Projections
- Financial ratios; and
- Other operating parameters.
- Banks can improve their rating mechanism by weighing these ratios based on years. It will give a higher degree of importance to near-term developments and make ratings more accurate.
- In addition to this, separate scales for rating can be devised for different borrowers to personalize risk assessment and improve the system's flexibility.
- To ensure that these rating models remain relevant and consistent, they should be rechecked and revised. It will enable banks to identify variations that could cause any future credit losses and address them quickly.

- <u>Risk Pricing</u>
- Pricing your loan products based on risk categories of borrowers is important to curb credit risks.
- Generally, borrowers having less than average credit history or weak financials are categorized as high-risk individuals and subjected to high interest rates.
- To ensure higher accuracy, banks should price credit risks based on the expected probability of default. Internationally, large banks have implemented the Risk-Adjusted Return On Capital (RAROC) framework, which adjusts the interest rates based on the expected loss on loans from the start itself.
- banks then allocate some capital to cover up the losses incurred on prospective loan.
- The RAROC framework helps banks in effective credit risk management and provides better loan pricing to borrowers.

- Analytics for Risk Detection and Control
- Through AI and ML, banks can now analyze customer credit history to foresee changes in their credit behavior.
- Banks can detect any change in the risk profile of the customer and make effective credit decisions.
- This real-time insight into customer behavior will allow banks to take proactive measures.
- Help them design effective credit frameworks and install policies to reduce credit risks.
- Data analytics can also be applied to simulate stressful environments for lending processes and to find out credit weaknesses.

Portfolio Management

- Appropriate risk rating/pricing can enable better portfolio management. Banks must identify patterns in the migration of borrowers based on the change in their credit quality.
- The data will provide banks the insights they need to identify the quality of their loan books and take corrective actions if necessary.
- Additionally, banks can also:
- Create credit ceilings based on borrower ratings to limit credit exposure.
- Understand the rating-wise distribution of borrowers in various industries.
- Limit exposure to segments based on the pros, cons, and current financial state. In case the industry is going through a period of stress, banks can increase the quality standards required to borrow from them.
- Design and undertake stress tests to identify weaknesses in their credit administration, policies, and tools to improve their credit risk management process.

Loan Review Mechanism

- An LRM is a great tool to understand the quality of loan books and bring qualitative improvements in credit-related decision-making.
- LRM can help banks identify large value loans that can potentially develop credit weakness and create a proactive approach to credit risk management. Additionally, LRMs are also very helpful in:

- Identifying adequacy of and adherence to loan policies, procedures.
- Checking compliance with government laws.
- Supporting existing credit risk management infrastructure.

INTRODUCTION TO INSURANCE

- Every risk involves the loss of one or other kind. In older time, the contribution by the person was made at the time of loss. Today, only one business, which offers all walks of life, is insurance business.
- Owing to growing complexity of life, trade and commerce, individual and business firms and turning to insurance to manage various risks.
- Every individual in this world is subject to unforeseen uncertainties which may make him and his family vulnerable. At this place, only insurance helps him not only to survive but also recover his loss and continue his life in a normal manner.
- Insurance is an important aid to commerce and industry. Every business enterprise involves large number of risks and uncertainties. It may involve risk to premises, plant and machinery, raw material and other things.
- Goods may be damaged or may be destroyed due to fire or flood. Some risk can be avoided by timely precautions and some are unavoidable and are beyond the control of a business. These unavoidable risks can be protected by insurance.
- **What is Insurance**

In D.S. Hamsell words, insurance is defined “as a social device providing financial compensation for the effects of misfortune, the payment being made from the accumulated contributions of all parties participating in the scheme”

In simple terms “Insurance is a co-operative device to spread the loss caused by a particular risk over a number of persons, who are exposed to it and who agree to insure themselves against the risk”

Thus, the insurance is

(a) A cooperative device to spread the risk;

(b) the system to spread the risk over a number of persons who are insured against the risk;

(c) the principle to share the loss of the each member of the society on the basis of probability of loss to their risk; and

(d) the method to provide security against losses to the insured

Insurance may be defined as form of contract between two parties (namely insurer and insured or assured) whereby one party (insurer) undertakes in exchange for a fixed amount of money (premium) to pay the other party (Insured), a fixed amount of money on the happening of certain event (death or attaining a certain age in case of life) or to pay the amount of actual loss when it takes place through the risk insured (in case of property)

Terminology used in definition of Insurance

- ***Insurer or insurance company*** – The agency involved in Insurance business known as insurer
- ***Insured/ Assured*** – The person who gets his property/life insured is known as insured
- ***Policy*** - The agreement or contract which is put in writing is known as a Policy
- ***Premium*** – The consideration in return of which the insurer undertakes to make goods the loss or give a certain amount in case of life insurance is known as premium

Assurance and Insurance

The two words were used synonymously at one time, but there is fine distinction between the two. 'Assurance' is used in those contracts which guarantee the payment of a certain sum on the happening of a specified event which is bound to happen sooner or later, for example attaining a certain age or death. Thus life policies come under 'assurance'.

Insurance, on the other hand, contemplates the granting of agreed compensation of the happening of certain events stipulated in the contract which are not expected but which may happen, for example risk relating to fire, accident or marine.

main characteristics- Nature of Insurance

which are applicable to all types of insurance (life, fire, marine and general insurance).

Sharing of Risks - Insurance is a device to share the financial losses which may occur to individual or his family on the happening of certain events

Co operative Device – Insurance is a co-operative device to spread the loss caused by a particular risk over a large caused by a particular risk over a large number of persons who are exposed to it and who agree to insure themselves against the risk.

Value of Risk – Risk is evaluated at the time of insurance. There are several methods of valuing the risk. Higher the risks, higher will be premium

Payment on Contingency -If the contingency occurs, payment is made; payment is made only for insured contingency. If there is no contingency, no payment is made. In life insurance contract, payment is certain because the death or the expiry of term will certainly occur. In other insurance contract like fire, marine, the contingency may or may not occur

Amount of Payment of Claim - The amount of payment depends upon the value of loss occurred due to the particular insured risk. The insurance is there upto that amount. In life insurance insurer pay a fixed sum on the happening of an event or within a specified time period.

Example – In fire insurance, if fire occurs and half the property is destroyed, but the whole property is insured, then payment of claim will be made only for that half building that is destroyed not the whole amount of insured.

Insurance is different from Charity - In charity, there is no consideration but insurance is not given without premium

Large number of Insured Person - Insurance is spreading of loss over a large number of persons. Larger the number of persons, lower the cost of insurance and amount of premium and incase lower the number of persons, higher the cost of insurance and amount of premium.

Insurance is different from Gambling - In gambling, there is no guarantee of gain, by bidding the person expose himself to risk of losing. Whereas in insurance, by getting insured his life and property, he protect himself against the risk of loss.

Functions of Insurance

Functions of insurance can be divided into parts;

I Primary functions.
II Secondary functions.

I Primary Functions

1. Certainty of compensation of loss: Insurance provides certainty of payment at the uncertainty of loss. The elements of uncertainty are reduced by better planning and administration. The insurer charges premium for providing certainty.

2. Insurance provides protection : The main function of insurance is to provide protection against risk of loss. The insurance policy covers the risk of loss. The insured person is indemnified for the actual loss suffered by him. Insurance thus provide financial protection to the insured. Life insurance policies may also be used as collateral security for raising loans.

3. Risk sharing : All business concerns face the problem of risk. Risk and insurance are interlinked with each other. Insurance, as a device is the outcome of the existence of various risks in our day to day life. It does not eliminate risks but it reduces the financial loss caused by risks. Insurance spreads the whole loss over the large number of persons who are exposed by a particular risk.

II Secondary Functions

1. Prevention of losses : The insurance companies help in prevention of losses as they join hands with those institutions which are engaged in loss prevention measures. The reduction in losses means that the insurance companies would be required to pay lesser compensations to the assured and manage to accumulate more savings, which in turn, will assist in reducing the premiums

2. Providing funds for investment : Insurance provide capital for society. Accumulated funds through savings in the form of insurance premium are invested in economic development plans or productivity projects.

3. Insurance increases efficiency : The insurance eliminates the worries and miseries of losses. A person can devote his time to other important matters for better achievement of goals. Businessman feel more motivated and encouraged to take risks to enhance their profit earning. This also helps in improving their efficiencies.

4. Solution to social problems : Insurance take care of many social problems. We have insurance against industrial injuries, road accident, old age, disability or death etc.

5. Encouragement of savings : Insurance not only provides protection against risks but also a number of other incentives which encourages people to insure. Since regularity and punctuality pf payment of premium is a perquisite for keeping the policy in force, the insured feels compelled to save.

Principles of Insurance

The basic principles which govern the insurance are -
(1) Utmost good faith
(2) Insurable interest
(3) Indemnity
(4) Contribution
(5) Subrogation
(6) Causa proxima
(7) Mitigation of loss

1. **Principle of utmost good faith** : A contract of insurance is a contract of ‘Uberrimae Fidei’ i.e., of utmost good faith. Both insurer and insured should display the utmost good faith towards each other in relation to the contract. In other words, each party must reveal all material information to the other party whether such information is asked or not. There should not be any fraud, non disclosure or misrepresentation of material facts.

Example – in case of life insurance, the insured must revel the true age and details of the existing illness/diseases. If he does not disclose the true fact while getting his life insured, the insurance company can avoid the contract.

Similarly, incase of the insurance of a building against fire, the insured must disclose the details of the goods stored, if such goods are of hazardous nature

A material fact means important facts which would influence the judgment of the insurer in fixing the premium or deciding whether he should accept the risk, on what terms. All material facts should be disclosed in true and full form

2. **Principle of Insurable Interest**: This principle requires that the insured must have a insurable interest in the subject matter of insurance. Insurance interest means some pecuniary interest in the subject matter of contract of insurance. Insurance interest is that interest, when the policy holders get benefited by the existence of the subject matter and loss if there is death or damage to the subject matter.

For example – In life insurance, a man cannot insured the life of a stranger as he has no insurable interest in him but he can get insured the life of himself and of persons in whose life he has a pecuniary interest. So in the life insurance interest exists in the following cases:-

- Husband in the life of his wife and wife in the life of her husband
- Parents in the life of a child if there is pecuniary benefit derived from the life of a Child
- Creditor in the life of debtor
- Employer in the life of an employee
- Surety in the life of a principle debtor

In life insurance, insurable interest must be present at the time when the policy is taken. In fire insurance, it must be present at the time of insurance and at the time if loss if subject matter. In marine insurance, it must be present at the time of loss of the subject matter.

3. **Principle of Indemnity** : This principle is applicable in case of fire and marine insurance only. It is not applicable in case of life, personal accident and sickness insurance. A contract of indemnity means that the insured in case of loss against which the policy has been insured, shall be paid the actual cost of loss not exceeding the amount of the insurance policy. The purpose of contract of insurance is to place the insured in the same financial position, as he was before the loss.

Example – A house is insured against fire for Rs. 50000. It is burnt down and found that the expenditure of Rs. 30000 will restore it to its original condition. The insurer is liable to pay only Rs. 30000.

In life insurance, principle of indemnity does not apply as there is no question of actual loss. The insurer is required to pay a fixed amount upon in advance in the event of accident, death or at the expiry of the fixed term of the policy. Thus, a contract of a life insurance is a contingent contract and not a contract of indemnity.

4. Principle of Contribution: The principle of contribution is a corollary to the doctrine of indemnity. It applies to any insurance which is a contract of indemnity. So it does not apply to life insurance. A particular property may be insured with two or more insurers against the same risks. In such cases, the insurers must share the burden of payment in proportion to the amount insured by each. If one of the insurer pays the whole loss, he is entitled to contribution from other insurers

Example – B gets his house insured against fire for Rs. 10000 with insurer P and for Rs. 20000 with insurer Q. a loss of Rs. 15000 occurs, P is liable to pay for Rs. 5000 and Q is labile to pay Rs 10000. If the whole amount pf loss is paid by Q, then Q can recover Rs. 5000 from P. The liability of P &Q will be determined as under:

Sum insured with Individual insurer (i.e. P or Q) x Actual Loss = Total sum insured

$$\text{Liability of P} = \frac{10000}{30000} \times 15000 = \text{Rs.}5000$$

$$\text{Liability of Q} = \frac{20000}{30000} \times 15000 = \text{Rs.}10000$$

The right of contribution arises when:

(a) There are different policies which related to the same subject matters;

(b) The policies cover the same period which caused the loss;

(c) All the policies are in force at the time of loss; and

(d) One of the insurer has paid to the insured more than his share of loss.

5. Principle of Subrogation : The doctrine of subrogation is a collorary to the principle of indemnity and applies only to fire and marine insurance. According to doctrine of subrogation, after the insured is compensated for the loss caused by the damage to the property insured by him, the right of ownership to such property passes to the insurer after settling the claims of the insured in respect of the covered loss.

Example – Furniture is insured for Rs. 1 lacs against fire, it is burnt down and the insurer pays the full value of Rs. 1 Lacs to the insured, later on the damage Furniture is sold for Rs. 10000. The insurer is entitled to receive the sum of Rs. 10000.

A loss may occur accidentally or by the action or negligence of third party. If the insured suffer a loss because of action of third party and he is in a position to recover the loss from the insurer then insured can not take action against third party, his right is subrogated (substituted) to the insurer on settlement of the claim. The insurer, therefore, can recover the claim from the third party.

If the insured recovers any compensation for the loss (due to third party), from the third party, after he has already been indemnified by the insurer, he holds the amount of such compensation as the trustee if the insurer.

The insurer is entitled to the benefits out of such rights only to the extent of the amount he has paid to the insured as compensation

6. **Principle of Causa Proxima** : Causa proxima, means proximate cause or cause which, in a natural and unbroken series of events, is responsible for a loss or damage. The insurer is liable for loss only when such a loss is proximately caused by the peril insured against. The cause should be the proximate cause and can not the remote cause. If the risk insured is the remote cause of the loss, then the insurer is not bound to pay compensation. The nearest cause should be considered while determining the liability of the insured. The insurer is liable to pay if the proximate cause is insured.

Example – In a marine insurance policy, the goods were insured against damage by sea water, some rats on the board made a hole in a bottom of the ship causing sea water to pour into the ship and damage the goods. Here, the proximate cause of loss is sea water which is covered by the policy and the hole made by the rats is a remote cause. Therefore, the insured can recover damage from the insurer

Example – A ship was insured against loss arising from collision. A collision took palce resulting in a few days delay. Because of the delay, a cargo of oranges becomes unsuitable for human consumption. It was held that the insurer was not liable for the the loss because the proximate cause of loss was delay and not the collision of the ship.

7. **Principle of Mitigation of Loss:** An insured must take all reasonable care to reduce the loss. We must act as if the property was not insured.

Example – If a house is insured against fire, and there is accidental fire, the owner must take all reasonable steps to keep the loss minimum. He is supposed to take all steps which a man of ordinary prudence will take under the circumstances to save the insured property.

Benefits of Insurance or Role and Importance of Insurance

Benefit of insurance can be divided into these categories -

1. **Benefits to Individual**

2 **Benefits to Business or Industry**

3. **Benefits to the Society**

It can be explained as under -

1. Benefits to Individual

(a) Insurance provides security & safety : Insurance gives a sense of security to the policy holder. Insurance provide security and safety against the loss of earning at death or in old age, against the loss at fire, against the loss at damage, destruction of property, goods, furniture etc.

Life insurance provides protection to the dependents in case of death of policyholders and to the policyholder in old age. Fire insurance insured the property against loss on a fire. Similarly other insurance provide security against the loss by indemnifying to the extent of actual loss.

(b) Encourage Savings : Life insurance is best form of saving. The insured person must regularly save out of his current income an amount equal to the premium to be paid otherwise his policy get lapsed if premium is not paid on time.

(c) Providing Investment Opportunity : Life insurance provide different policies in which individual can invest smoothly and with security; like endowment policies, deferred annuities etc. There is special exemption in the Income Tax, Wealth Tax etc. regarding this type of investment

2 Benefits to Business or Industry

(a) Shifting of Risk : Insurance is a social device whereby businessmen shift specific risks to the insurance company. This helps the businessmen to concentrate more on important business issues.

(b) Assuring Expected Profits : An insured businessman or policyholder can enjoy normal expected profits as he would not be required to make provisions or allocate funds for meeting future contingencies.

(c) Improve Credit Standing : Insured assets are easily accepted as security for loans by the banks and financial institutions so insurance improve credit standing of the business firm

(d) Business Continuation – With the help of property insurance, the property of business is protected against disasters and chance of closure of business is reduced

3. Benefits to the Society

(a) Capital Formation : As institutional investors, insurance companies provide funds for financing economic development. They mobilize the saving of the people and invest these saving into more productive channels

(b) Generating Employment Opportunities : With the growth of the insurance business, the insurance companies are creating more and more employment opportunities.

(c) Promoting Social Welfare : Policies like old age pension scheme, policies for education, marriage provide sense of security to the policyholders and thus ensure social welfare.

(d) Helps Controlling Inflation : The insurance reduces the inflationary pressure in two ways, first, by extracting money in supply to the amount of premium collected and secondly, by providing funds for production narrow down the inflationary gap.

Type of Insurance

Insurance cover various types of risks and include various insurance policies which provide protection against various losses.

There are two different views regarding classification if insurance:-

I. From the business point of view; and
II From the risk points of view
I. Business point of view
The insurance can be classified into three categories from business point of view
1. Life insurance;
2. General Insurance; and
3. Social Insurance.
1. Life Insurance: The life insurance contract provide elements of protection and investment after getting insurance, the policyholder feels a sense of protection because he shall be paid a definite sum at the death or maturity. Since a definite sum must be paid, the element of investment is also present. In other words, life insurance provides against pre-mature death and a fixed sum at the maturity of policy. At present, life insurance enjoys maximum scope because each and every person requires the insurance.
Life insurance is a contract under which one person, in consideration of a premium paid either in lump sum or by monthly, quarterly, half yearly or yearly installments, undertakes to pay to the person (for whose benefits the insurance is made), a certain sum of money either on the death of the insured person or on the expiry of a specified period of time.

Life insurance offers various polices according to the requirement of the persons -

- Term Assurance
- Whole Life
- Endowment Assurance
- Family Income Policy
- Life Annuity Joint Life Assurance
- Pension Plans
- Unit Linked Plans
- Policy for maintenance of handicapped dependent
- Endowment Policies with Health Insurance benefits

2. General Insurance: The general insurance includes property insurance, liability insurance and other form of insurance. Property insurance includes fire and marine insurance. Property of the individual and business involves various risks like fire, theft etc. This need insurance Liability insurance includes motor, theft, fidelity and machine insurance

Type of General Insurance policies available are -

- Health Insurance
- Medi- Claim Policy
- Personal Accident Policy
- Group Insurance Policy
- Automobile Insurance
- Worker's Compensation Insurance
- Liability Insurance
- Aviation Insurance
- Business Insurance
- Fire Insurance Policy
- Travel Insurance Policy

3. Social Insurance: Social insurance provide protection to the weaker sections of the society who are unable to pay the premium. It includes pension plans, disability benefits, unemployment benefits, sickness insurance and industrial insurance.

II Risk Points of View

The insurance can be classified into three categories from Risk point of view

1. Property Insurance
2. Liability Insurance
3. Other forms of Insurance

1. Property Insurance: Property of the individual and business is exposed to risk of fire, theft marine peril etc. This needs insurance. This is insured with the help of:-

(i) Fire Insurance
(ii) Marine Insurance
(iii) Miscellaneous Insurance

(i) Fire Insurance: Fire insurance covers risks of fire. It is contract of indemnity. Fire insurance is a contract under which the insurer agrees to indemnify the insured, in return for payment of the premium in lump sum or by instalments, losses suffered by the him due to destruction of or damage to the insured property, caused by fire during an agreed period of time. It includes losses directly caused through fire or ignition. There are various types of fire insurance policies.

- Consequential loss policy
- Comprehensive policy
- Valued policy
- Valuable policy
- Floating policy
- Average policy

(ii) Marine Insurance: Marine insurance is an arrangement by which the insurer undertakes to compensate the owner of the ship or cargo for complete or partial loss at sea. So it provides protection against loss because of marine perils. The marine perils are collisions with rock, ship attack by enemies, fire etc. Marine insurance insures ship, cargo and freight.

The following kinds of marine policies are -

- Voyage policy
- Time policy
- Valued policy
- Hull Policy
- Cargo Policy
- Freight Policy

(iii) Miscellaneous Insurance: It includes various forms of insurance including property insurance, liability insurance, personal injuries are also insured. The property, goods, machine, furniture, automobile, valuable goods etc. can be insured against the damage or destruction due to accident or disappearance due to theft.

Miscellaneous insurance covers

- Motor
- Disability
- Engineering and aviation risks
- Credit insurance
- Construction risks
- Money Insurance
- Burglary and theft insurance
- All risks insurance

2. Liability Insurance: The insurer is liable top pay the damage of the property or to compensate the loss of personal injury or death. It includes fidelity insurance, automobile insurance and machine insurance.

The following are types of liability Insurance:-

- Third party insurance
- Employees insurance
- Reinsurance

3. Other forms of Insurance: It include export credit insurance, state employee insurance etc. whereby the insurer guarantees to pay certain amount at the happening of certain events.

The following are other form of Insurance-

- Fidelity Insurance
- Credit Insurance
- Privilege Insurance

Role of Insurance Companies in Economic Development of India

. Saving and Insurance

Saving involves refraining from present consumption. The investment can take place only when there are savings. The relationship between. saving, investment and growth of GDP can be explained as:

G = S / K. Where G – Rate of GDP growth, S – Saving Ratio and K – Capital output ratio.

Insurance companies lead to economic development by mobilizing savings and investing them into productive activities. Indian insurance companies are able to**mobilize long-term savings** to support economic growth and also facilitate economic development by providing insurance cover to a large segment of our people as well as to business enterprise throughout India.

2. Capital Formation and Insurance

Capital formation maybe defined as **increase in capital stock** of the country consisting of plant, equipment, machinery, tools, building, means of transport, communication, etc. The process of capital formation envisages three essential steps. These are:

a. **<u>Real saving</u>**: Mobilization of saving through financial and non-financial intermediaries to be placed at the disposal of investor.

Role of Insurance Companies in Economic Development of India
Indian insurance companies play following roles in Economic development of our country.

Role of Insurance Companies in Economic Development of India
1. Saving and Insurance
Saving involves refraining from present consumption. The investment can take place only when there are savings. The relationship between. saving, investment and growth of GDP can be explained as:
G = S / K. Where G – Rate of GDP growth, S – Saving Ratio and K – Capital output ratio.

Insurance companies lead to economic development by mobilizing savings and investing them into productive activities. Indian insurance companies are able to**mobilize long-term savings** to support economic growth and also facilitate economic development by providing insurance cover to a large segment of our people as well as to business enterprise throughout India.

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a. **<u>Real saving</u>**: Mobilization of saving through financial and non-financial intermediaries to be placed at the disposal of investor.

b. **<u>The act of investment</u>**: The contribution of insurance companies in the process of capital formation appears at all these stages. Insurance services act as a tool to mobilize saving, function as <u>financial intermediary</u> and at times also indulge in direct investment. Also govt. has made regulations under which every insurer carrying on business of life insurance shall invest 25% of funds in Govt. securities and not less than 15% in infrastructure and social sector.

The importance of Indian insurance industry is gauged by the fact that annual amount of investible funds of LIC and GIC and its subsidiaries amounted to over Rs. 20,000 crore and Rs. 10,000 crore are invested in nation building activities, housing and other infrastructural areas.

c. **Increased Employment**: Prior to the liberalization of insurance sector in India, the opportunities for employment were limited with the LIC of India as sole employer. While some of the professionals left the country looking for opportunities elsewhere, those who remained, worked within the confines and constraints of public sector monopoly. This has further constrained the opportunities for exposure to the development in rest of the world. Liberalization and the opening up of sector to private players has now created a vast opportunity for employment.

3. Obligation to Rural and Social Sector

In India, the insurance companies are required to fulfill their obligation towards rural and social sector. For this, Life insurers are required to have 5%, 7%, 10%, 12%, 15% of total policies in first five years respectively in rural sector. Like wise General Insurers are required to have 2% 3% and 5% thereafter of total gross premium income written in first five financial years respectively in rural sector.

4. Insurance as financial intermediary

Financial intermediaries perform the function of channelizing saving into domestic investment. They facilitate efficient allocation of capital resources, which in turn improve productivity and economic efficiency which result in reduced capital output ratio. The insurance companies perform extremely useful function in economy as financial intermediaries. These are as follows:

a. **Reduction in transaction cost**: Insurers help in reducing transaction cost in economy by collecting funds from policyholders and investing the same in different projects scattered over different regions. It is a specialized and time consuming job.

b. **Creating liability**: The policyholders, in case of loss, are not required to wait for a long period for the amount of claim. It improves their liquidity.

c. **Facilitates Economies of scale in Investment**: Insurers are in the position of financing large projects, railways power projects, etc. These large projects create economies of scale, facilitate technological innovation and specialization and thus promote economic efficiency and productivity.

5. Promotes Trade and Commerce

The increase in GDP is positively correlated to growth of trade and commerce in economy. Whether it is production of goods and services, domestic or international trade or venture capital projects, insurance dominates everywhere. Even banks demand insurance cover of assets while granting loans for purchase of assets. Thus insurance covers, promotes specialization and flexibility in the economic system that play contributory role in healthy and smooth growth of trade and commerce.

6. Facilitates efficient capital allocation

Insurance provides cover to large number of firms, enterprises and businesses and also deploy their funds in number of investment projects. The vast pool of knowledge and expertise so gained enable them to distinguish between productive and high return projects. Therefore, they promote efficient and productive allocation of capital resources, which in turn lead to increased productivity and efficiency in the system.

7. Encouraging Financial Stability and Reducing Anxiety

Insurer promotes financial stability in economy by insuring the risks and losses of individuals, firm and organizations. Because of uninsured large losses, firm may not be able to compensate for it leading to its insolvency which may cause loss of employment, revenue to supplier & Govt., loss of products to customer, etc. Moreover, it relieves the tensions and anxiety of individuals by securing the loss of their lives and assets.

8. Reducing Burden on Govt. Exchequer

Insurance companies, particularly life insurers provide a variety of insurance products covering needs of children, women and aged etc under social security network and thereby reduce the burden on Govt. exchequer in providing these services. This Govt., saves expenditure on these items and amount can be utilized for more productive projects. To conclude, we can say that insurance companies play an important role in economic development of country.

LIC Plans

LIC E Term

LIC Aadhaar Stambh

LIC Aadhaar Shila

LIC Anmol Jeevan II

LIC Amulya Jeevan II

LIC Jeevan Rakshak

LIC Bima Diamond

LIC Jeevan Shagun

LIC Jeevan Umang

LIC Jeevan Utkarsh

LIC New Bima Bachat Plan

LIC New Money Back Plan 25 Years

LIC New Money Back Plan 20 Years

LIC New Endowment Plus Plan

LIC Jeevan Arogya

LIC Jeevan Pragati Plan

LIC Jeevan Shikhar Plan

LIC Jeevan Labh Plan

LIC Jeevan Lakshya Plan

LIC Limited Premium Endowment Plan

LIC Jeevan Sangam

LIC New Jeevan Anand Plan

LIC New Endowment Plan

LIC Single Premium Endowment Plan

LIC Jeevan Tarun Plan

LIC's New Children Money Back Plan

LIC Varishtha Pension Bima Yojana

LIC Jeevan Akshay Plan

LIC New Jeevan Nidhi Plan

LIC Jeevan Saral

LIC Jeevan Shanti

LIC Jeevan Shiromani

LIC New Term Assurance Rider

LIC's Critical Illness Benefit Rider

LIC Pradhan Mantri Vaya Vandana Yojana

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Check LIC Policy Status

Revive Lapsed LIC Policy

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Bajaj Allianz Life Insurance

Bharti Axa Life Insurance

Birla Sun Life Insurance

Canara Hsbc Life Insurance

Dhfl Pramerica Life Insurance

Edelweiss Tokio Life Insurance

Exide Life Insurance

Future Generali Life Insurance

Hdfc Standard Life Insurance

Icici Prudential Life Insurance

Idbi Federal Life Insurance

Indiafirst Life Insurance

Kotak Mahindra Life Insurance

Max Life Insurance

Pnb Metlife India Insurance

Reliance Life Insurance

Sahara India Life Insurance

Sbi Life Insurance

Shriram Life Insurance

Daiichi Life Insurance

Tata Aia Life Insurance

Insurance Calculator

Life Insurance Calculator

Term Insurance Calculator

Pension Calculator

Savings Calculator

Life insurance is as important as having a healthy and secured life. No one can overstated the importance of having a life insurance. It offers the required financial protection to your family or loved ones in the event of your demise.In India, some people may think of it just as another expense. The question you should ask to yourself that what your family and loved ones will do in case of your demise, how will they manage their life if you are a single breadwinner. If you are getting confused then the answer is a life insurance policy.

In India, whenever it comes to life insurance, the first company that comes in mind is none other than the Life Insurance Corporation of India. It is the most trusted brand that deals in a wider range of life insurance products. Among all the available options, it becomes quite hard to pick the best one. To provide ease to you, below is the list of 5 top life insurance products by LIC.

Best LIC Plans and Policies Details

LIC Plans	Plan Type	Entry Age	Policy Term	Maximum maturity age	Sum Assured(minimum--maximum)
LIC New Endowment	Non-linked	8-50 years	12-35	75 years	1, 00, 000—No limit

Plan	Endowment plan		years		
LIC- e Term	Pure Term insurance plan	18-60 years	10-35 years	75 years	25,00,000—No limit
LIC Jeevan Anand	Participating Traditional Endowment Plan	18-50 years	15-30 years	75 years	15-30 years
LIC New Children Money Back Plan	Traditional Money Back Child Plan	Traditional Money Back Child Plan	25 years	25 years	Rs.1,00,000/--No limit
LIC Jeevan Saral	Endowment Plan	12 – 60 years	10 – 35 years	70 years	250 times monthly premium—no limit

1. LIC New Endowment Plan

LIC New Endowment Plan- one of the most popular non-linked plan by LIC that offers a combination of protection and savings to the consumers. This effective insurance policy is attracting many consumer on a daily basis and the reason behind the same is that this plan provides the required financial assistance to the family of the insured any time before the maturity. Under the same, a good lump sum amount at the time of maturity for the surviving policyholder is there. This plan also takes care of liquidity needs of the customer through its loan facility.

You can surrendered this policy any time after 3 years of the policy.You must keep in mind that the surrender value of the same will depend upon the premium that the policyholder paid but this will not include the premium that you pay for optional benefits.

An important point that every policyholder should know that in case where the insured commits suicide within a year of the policy then the insurance company would not be liable to pay any assured benefits. Under the same, the nominees will get around 80 percent of paid premium till the death of the policyholder.

In case of death of the policyholder during the policy term provided all due premiums have been paid the Death benefit, defined as the sum of "sum assured on death" and vested simple reversionary bonuses and final additional bonus, if any, shall be payable. “Sum Assured on Death” can be defined as the higher of Basic Sum Assured or 10 times of the annualized premium. This death benefit shall not be less than 105% of all the premiums paid as on date of death. You will get good maturity benefits.

LIC New Endowment Plan-policy Type	**Non-Linked Endowment Plan**

Entry Age	8-50 years
Mode of Payment	Monthly, Quarterly, Half-Yearly, Yearly
Tax Benefits	Premium paid is tax exempt under Section 80C. However, the pension that you would receive would be taxable
Sum Assured	The minimum basic sum assured for the policy is Rs. 1, 00, 000 while there is no maximum limit for the sum assured.
Optional Benefit	Disability Benefit Rider. LIC Accidental Death.

2. LIC e-term

LIC's e-Term policy is a pure life cover policy that deals in providing complete financial assistance to the insured's family in case of any unfortunate or any unforeseen event. You can buy this term plan through online application process only and no agents are required.

Death Benefit- In case of unfortunate death of the life assured during the policy term Sum Assured shall be payable.

Maturity Benefit- On survival to the end of the policy term, nothing shall be payable.

Eligibility- The person must have own earned income.

One cannot propose for anyone other than self. Key Man Insurance (KMI)/ Partnership/ Employer-Employee Cover will not be allowed.

LIC e-Term	**Pure Term Insurance**
Entry Age	18-60 years
Policy Term	The minimum policy term for the policy is 10 years while the maximum is 35 years.
Minimum Premium/Purchase Price	Rs. 4600/-
Sum Assured	Minimum Basic Sum Assured should be Rs. 25, 00,000 for the Aggregate category, for a non-smoker it is Rs. 50, 00, 000/- and no limits for maximum
Medical Examination	Required

3. LIC Jeevan Anand Plan

LIC Jeevan Anand Plan is also a participating non-linked plan which offers an attractive combination of protection and savings. If you check data then you will realize that this is the highest sold insurance policies from LIC. Because of its multiple benefits that includes Risk coverage even after the maturity of lifetime makes it most required one. LIC JeevanAnand is a complete endowment cum whole life policy that comes along with Bonus facility. Under the same, you will get Double Death Benefit in case of survival. This plan has average premium, high bonus rate, and great liquidity feature

1. The customer can enjoy the lump sum payment at the time of maturity.

2. This policy provides a good sum of financial protection against the death of the policyholder

3. The best thing about this policy is that even when the maturity is paid and the policyholder is surviving then the insurance coverage continues with the payment of premium amounts. This plan is ideal for women who are never off their responsibilities in life as it also continues its responsibility,even after the maturity period of the plan.

LIC Jeevan Anand Plan	**Participating Traditional Endowment Plan**
Entry Age	18-50 years
Sum Assured	Rs.1,00,000/-no limits
Loan Facility	Available
Optional Benefits	LIC accidental death benefit or disability benefit. - LIC's New Term Assurance Rider
Tax Benefits	Available under Section 80C

4. LIC New Children Money Back Plan

LIC New Children Money Back Plan is a participating non-linked money back plan. It is specially designed to meet the educational, marriage and other needs of growing children through Survival Benefits. Moreover, under the same, you will get the risk cover on the life of a child during the policy term and for a number of survival benefits on surviving to the end of the specified duration. You can pay premium regularly at yearly, half-yearly, quarterly or monthly mode through ECS only or through SSS mode. If you paid premium amount for initial three years, then the policy can be surrendered at any time during the policy term.

LIC New Children Money Back Plan	**Traditional Money Back Child Plan**
Entry Age	0-12 years
Premium Mode	Yearly, half-yearly, quarterly or monthly mode through ECS only or through SSS mode
Policy Term	25 years

Medical Examination	Not required
Minimum Purchase Price	Rs.24,000/-

5. LIC Jeevan Saral

This helpful insurance policy comes under the Special Plans section of LIC. It is an endowment policy that provides a lotof flexibilitieswhich people usually get under Unit linked insurance plans (ULIPs). With outstanding features of the traditional plans and the flexibility of ULIP plans, JeevanSaral insurance plan gives double death benefit of sum assured plus return of premium.

Premiums: Premiums are payable yearly, half-yearly, quarterly, or monthly through salary deductions as opted by you throughout the term of the policy or till earlier death.

Loyalty Additions: This is a with-profits plan and participates in the profits of the Corporation life insurance business. It gets a share of the profits in the form of loyalty additions which are terminal bonuses payable along with death benefit or maturity benefit. Loyalty Additions may be payable from the 10th year onwards depending upon the experience of the Corporation.

LIC Jeevan Saral	Endowment policy
Entry Age	12-60 years
Minimum Premium/Purchase Price	Rs.250/- (for age below 50years) - Rs.400/- (for age above 50years)
Medical Examination	N/A
Maximum Maturity Age	75 years
Tax Benefits	Available under Section 80C

Underwriting: Functions **-** Principles - Underwriting in Life Insurance - Underwriting in Non- Life Insurance.

What Is an Insurance Underwriter?

Insurance underwriters are professionals who evaluate and analyze the risks involved in insuring people and assets. Insurance underwriters establish pricing for accepted insurable risks. The term underwriting means receiving remuneration for the willingness to pay a potential risk. Underwriters use specialized software and actuarial data to determine the likelihood and magnitude of a risk.

- ❖ Insurance underwriters evaluate the risks involved in insuring people and assets and establish pricing for a risk.
- ❖ Underwriters in investment banking guarantee a minimum share price for a company planning an IPO (initial public offering).
- ❖ Commercial banking underwriters assess the risk of lending to individuals or lenders and charge interest to cover the cost of assuming that risk.
- ❖ Insurance underwriters assume the risk of a future event and charge premiums in return for a promise to reimburse the client an amount in the event damage or occurs.

Investment Banking Underwriters

- ❖ The underwriters of an investment bank often guarantee a specified amount of capital to a corporation during an initial public offering (IPO), an amount which is theoretically provided by investors as the source of capital.
- ❖ The bank acts only as the "facilitator" of the transaction, but they have still taken on an "underwriting risk" by promising to provide those proceeds of the sale to the client, regardless of the success or failure of the sale of its company's shares.

Insurance Underwriters

- ❖ Insurance underwriters assume the risk involved in a contract with an individual or entity. For example, an underwriter may assume the risk of the cost of a fire in a home in return for a premium or a monthly payment. Evaluating an insurer's risk before the policy period and at the time of renewal is a vital function of an underwriter.

- ❖ For example, homeowners insurance underwriters must consider numerous variables when rating a homeowner's policy. Property and casualty insurance agents act as field underwriters, initially inspecting homes or rental properties for conditions such as deteriorated roofs or foundations that pose a risk to the carrier. The agents report hazards to the home underwriter. The home underwriter additionally considers hazards that may trigger a liability claim.

- Hazards include unfenced swimming pools, cracked sidewalks, and the presence of dead or dying trees on the property. These and other hazards represent risks to an insurance company, which may eventually be required to pay liability claims in the event of accidental drownings or slip and fall injuries.

Homeowner insurance underwriters employ an algorithmic rating method to pricing. The system generates an appropriate premium based on the platform's interpretation and the combination of all data reported from the observations of the field underwriter. The lead underwriter also subjectively considers answers submitted by the applicant on the policy application when arriving at a premium.

Insurance companies must balance their approach to underwriting: if too aggressive, greater-than-expected claims could compromise earnings; if too conservative, they will be outpriced by competitors and lose market share.

What is Life Insurance Underwriting Process?

Applying for a life insurance policy is easy, especially when applied for online, it may take only a few minutes. Once you have given your basic details and provided necessary information, your insurance application is then sent for the underwriting process.

This process determines if you can get coverage, how much coverage can be approved for you, and at what cost. The underwriter, the person who evaluates your application, works on behalf of or for the life insurance company to look at your health and financial information to figure out if you are eligible to receive the rate you were originally quoted.

Underwriters use underwriting guidelines based on mortality statistics that are calculated by actuaries. All insurance products involve some degree of underwriting. For life insurance, the underwriter looks at data like your health and medical history as well as lifestyle information like your hobbies and financial ability.

Two Parts of Life Insurance Underwriting

There are broadly two parts to underwriting:

1) Financial Underwriting

It helps the underwriter to make sure the amount you're purchasing is in line with your family's and your needs.

2) Medical Underwriting

Here, the underwriters determine how much of a risk you are to insure by evaluating factors that may affect your mortality.

What is Underwriting in Life Insurance?

Underwriting is a term used to describe the consideration given to a life insurance application, to determine whether a policy applied for should be issued or there are changes to be made depending on the person's risk profile.

The process helps in the selection of risks for the insurance company involved in issuance of an insurance policy to the person in question.

Underwriters are the risk managers of the organization. They help the organization to keep actual experience within the mortality assumption used in calculating the premium rates, which helps the company to offer insurance cover at competitive terms, maintain equity between policyholders, and offer cover to as wide a group of lives as possible.

Life Insurance Underwriting Process

The most important underwriting tools include the Proposal Form, Age Proof, Income Documents, Questionnaires Sales Report and a Client Confidential Report (CCR). These tools are used to implement the following process:

The underwriting process is when insurance companies evaluate your risk profile based on several factors – including health history, age, and gender.

Step 1: MIB check

This happens before the underwriter looks at your application in detail. The MIB is a trade group that helps insurers share medical data and prevent fraud. It allows underwriters to see details about your medical records from previous life insurance applications (dating back three to five years).

If you've applied for life insurance before, it won't hurt your classification. The MIB just shows the date of any medical impairments, treatments, and diagnoses as reported by previous underwriters in case anything was missed.

Step 2: Application Quality Check

Your application is first gone through to make sure the information provided is complete and correct. Therefore, it is important you fill your proposal form carefully and completely. Unless the missing information is related to your medical history, a minor change required in an application does not typically slow down the underwriting process. After this, your application goes into the official underwriting process. Each of the following checks can increase the turnaround time, but it is worth it to get you the right premium price you will need to pay over the policy term.

Step3: Medical Examination

This step involves looking thoroughly at the results of your paramedical exam, conducted only if required for health proof. This medical test is a simple checkup with the doctor recommended by the insurance company. After the medical examination, the results are sent to the underwriter for evaluation. The information used by the underwriter is mainly of three types – basic measurements, your blood test and drug test. Basic measurements include regular metrics like height, weight, blood pressure. Blood test can get a lot of information on potential health risks such as heart disease, stroke, diabetes, and blood-borne illnesses, among others. Finally, a urine test for a full drug panel will alert the underwriter to the use of drugs, smoking and alcohol consumption.

Step 4: Final Application Rating

Once the underwriting process is complete and all your medical and financial background have been checked, you are either made a counter offer suggesting the changes basis you policy evaluation, or you are proudly offered the life insurance policy. Depending upon your acceptance or rejection of the new policy term, your policy is then issued. The whole process can take anywhere between three to eight weeks. After this, all that's left to be done is to confirm the premium rate, sign the policy to put it in force to keep your family protected.

While not every applicant will require a detailed medical examination, underwriters may sometimes request an inspection report, or independent information on the applicant's financial situation and lifestyle. The premium that you have to pay for your life insurance policy depends majorly on this evaluation done basis factors like your age, your medical history, gender, lifestyle, and job. However, you must remember that a life insurance policy should not be bought on the basis of lower premiums. While term insurance plans are usually known to have the lowest premiums, you can choose an insurance provider that offers a relatively higher implied investment return, a high death benefit and relatively lower surrender charges, along with a high claim settlement ratio.

Step 4: Attending physician statement

If there are concerns from your medical exam results, the underwriter will order an Attending Physician Statement (APS). An APS is a summary of your medical history from your doctor's point of view. For example, if you had high blood pressure during your exam, an APS would let an underwriter know the underlying cause.

This step can prolong the underwriting process, adding anywhere from a few days to a few months, depending on how long it takes for a doctor's office to comply with the request.

Step 5: Prescription check

The underwriter will check all the medications prescribed to you over the past three to five years. As with the medical exam, APS request, and MIB check, the prescription check confirms the information in your application.

Whether your underwriter requires this step depends on your other medical reports. Life insurance policies with higher coverage amounts may also require a prescription check.

Step 6: Motor vehicle report

A motor vehicle report, or MVR, details your driving history as far back as seven years. It notes driving violations like traffic citations (think: speeding or reckless driving tickets), vehicular crimes, accident reports, driving record points, and DUI convictions.

Your premiums will be higher than someone who has a clean driving record if your MVR reports anything concerning. If you have a recent DUI on your record, you may be denied a policy.

Step 7: Actuarial tables

Life insurance underwriters use an actuarial table — a statistical analysis of your life expectancy — to estimate the likelihood that you'll die at any given age and what risk you pose to the insurer. Where you fall on an actuarial table depends on your health profile, including smoking status, any medical diagnoses, family history, and occupation.

Underwriters look at two separate actuarial tables for life insurance underwriting:

- Mortality table: A mortality table shows the mortality probability of a given population, based on age and gender only. It's used as a statistical baseline to predict when you're most likely to die.
- Build table: A build table uses your body mass index (BMI) — which looks at your height and weight — to determine how healthy you are and predict your life expectancy.

Step 8: Credit system

Sometimes underwriters can give you a little bump to help you get more affordable premiums using an internal credit system.

For example, if a chronic illness results in a Standard (or Substandard) classification, an underwriter might give you credits to lower your rates if you're actively taking steps to improve your health and undergoing preventative care.

The APS and prescription check let an underwriter know what you're doing to keep health problems from getting worse, which can boost both your health and your wallet. There's also the option to lower your premiums by reapplying for life insurance in the future once you've taken steps to improve your health.

Step 9: Your final rating

Unless you get a no-exam policy, the underwriting process can take anywhere from five to six weeks. Outside sources — like a doctor's office for an APS — can add time too. But once the process is complete, all that's left is to confirm the premiums and sign the policy to put it in force.

Key underwriting factors

All insurance products involve some degree of underwriting to get a picture of your personal background and any risks related to the kind of insurance you're purchasing. Here's how underwriters look at each of the following aspects of the application:

- Age: Premiums are lower when you're younger. But if you're older and have fewer financial obligations — closer to retirement, for example — you usually need less coverage.
- Citizenship status: Temporary visa and green card holders won't qualify for coverage with some insurers.
- Coverage amount: An insurer might do more to check your risk if you need a higher death benefit. The underwriter will use your financial details to make sure you're not getting more coverage than you need.
- Criminal history: Misdemeanors won't have a big impact on your rates, but people convicted of felonies who are currently on probation won't be considered.
- Driving record: A risky driving history (speeding, accidents, or DUIs), can raise your rates or lead to an application decline.
- Drug use: Using cannabis won't keep you from getting a policy, but using hard drugs can result in an application decline.
- Existing coverage: If you have other life insurance policies, underwriters check to make sure you aren't applying for too much insurance.
- Foreign travel: Countries fall into categories based on safety issues, medical care availability, and government stability. Travel to countries of concern can make

you uninsurable. The frequency of travel and length of stay is also considered. (More on this below.)

- Gender: Females live six to eight years longer than men on average, [1] so they generally get lower life insurance rates. But other medical risks can raise rates for any gender.
- Health history: One of the most important life insurance underwriting factors. The healthier you are, the better your rates will be.
- Hobbies: Like your job, certain hobbies — like aviation — will affect your rates, since there's usually increased risk.
- Income & net worth: The amount of insurance you buy should match the financial loss your family will experience if you pass away.
- Insurable interest: The person buying a policy on you needs to be able to prove they'd suffer financially if you passed away. Since people usually buy a policy for themselves or their spouse, it's rarely an issue.
- Military service: Military members with more dangerous duties (fighter pilots, Navy SEALs, or people being deployed to dangerous areas) could be uninsurable.
- Occupation: Most occupations are considered "safe," but some have higher mortality rates. Lumber workers, for example, could require a flat extra fee, or be declined.
- Previous applications: Your previous life insurance application records, including health classifications or declines, can notify the underwriter of potential concerns.
- Tobacco use: Smokers will pay more for life insurance than non-smokers. If you have medical conditions caused by tobacco use, that will matter too.

Underwriting principles

❖ Underwriting has to do with the selection of subjects for insurance in such a manner that general company objectives are met.

- The main objective of underwriting is to see that the risk accepted by the insurer corresponds to that assumed in the rating structure.
- There is often a tendency toward adverse selection, which the underwriter must try to prevent.
- Adverse selection occurs when those most likely to suffer loss are covered in greater proportion than others. The insurer must decide upon certain standards, terms, and conditions for applicants, project estimated losses and expenses through the anticipated period of coverage, and calculate reasonably accurate rates to cover these losses and expenses.
- Since many factors affect losses and expenses, the underwriting task is complex and uncertain. Bad underwriting has resulted in the failure of many insurers.
- In the field of life insurance the agent's judgment is not accepted as final until the home-office underwriter can make a decision, for the life insurance contract is usually noncancelable, once written.
- In the field of property and liability insurance, on the other hand, the contract is cancelable if the home-office underwriter later finds the risk to be unacceptable.
- It is not uncommon for a property and liability insurer to accept large risks only to cancel them at a later time after the full facts are analyzed. The insurance underwriter must tread a thin line between undue strictness and undue laxity in the acceptance of risk. The underwriter's position is not unlike that of the credit manager in a business corporation, in which unreasonably strict credit standards discourage sales but overly weak credit standards invite losses.
- An important initial task of the underwriter is to try to prevent adverse selection by analyzing the hazards that surround the risk.
- Three basic types of hazards have been identified as moral, psychological, and physical.
- A moral hazard exists when the applicant may either want an outright loss to occur or may have a tendency to be less than careful with property. A

psychological hazard exists when an individual unconsciously behaves in such a way as to engender losses.

- ❖ Physical hazards are conditions surrounding property or persons that increase the danger of loss.
- ❖ An underwriter may suspect the existence of a moral hazard on applications submitted by persons with known records of dishonesty or when excessive coverage is sought or the replacement value of the property exceeds its value as a profit-making enterprise.
- ❖ Underwriters are aware that fire losses are more likely to occur during business depressions.
- ❖ The underwriter can detect moral hazard in various ways: An applicant's credit may be checked; courthouse and police records may reveal a criminal history or a history of bankruptcy; and other insurance companies can be queried for information when it is suspected that an individual is trying to obtain an excessive amount of coverage or has been turned down by other insurers.
- ❖ The psychological type of hazard can take a number of forms. Some persons are said to be "accident-prone" because they have far more than their share of accidents, suggesting that unconsciously they want them.
- ❖ It is well known that persons applying for annuities tend to have longer than average lives, and consequently a special mortality table is used for annuitants. Certain types of insanity have to be watched for—notably the impulse to set fires.
- ❖ Physical hazards include such things as wood-frame construction in buildings, particularly in areas where such properties are densely concentrated. Earthquake insurance rates tend to be high where geologic faults exist (as in San Francisco, which is built almost directly over such a fault).
- ❖ Each kind of insurance has its characteristic hazards. In fire insurance the physical hazards are analyzed according to four major factors: type of construction, the protection rating of the city in which the property is located,

exposure to other structures that may spread a conflagration, and type of occupancy.

- **In underwriting General Insurance**: automobile insurance, the underwriter considers the following factors: the age, sex, and marital status of the driver and members of the driver's household; length of driving experience; occupation; stability of employment and residence; physical impairments; accident and conviction record; extent of use of alcohol and drugs; customary use of the vehicle; age, condition, and maintenance of the vehicle; and records of insurance cancellation or refusal.
- In some cases tests of emotional maturity are administered. Some underwriters even consider such factors as the school records of student drivers and whether or not driving courses have been taken.

- The hazards considered in the underwriting of general liability insurance depend on the type of business and the record of the person applying for coverage.
- In the field of contracting, for example, the underwriter is interested in the type of equipment owned or rented by the applicant; the applicant's losses in the past, attitude toward safe practice, cooperation with building inspectors, and financial position and credit standing; the stability of supervisory employees; and the degree to which the applicant has been a successful contractor in the past.

UNDER WRITING'S FOUR BASIC FUNCTIONS

The process of underwriting involves four basic functions: 1) selection of risks, 2) classification and rating, 3) policy forms, and 4) retention and reinsurance. By performing these four functions the underwriter increases the possibility of securing a safe and profitable distribution of risks.

RISK SELECTION.

In this step the underwriter decides whether or not to accept a particular risk. It involves securing factual information from the applicant, evaluating that information, and deciding on a course of action. The underwriter is typically aided by a list of acceptable and prohibited risks.

CLASSIFICATION AND RATING.

Once the risk has been accepted, the underwriter then classifies and rates the policy. Several tentative classifications are usually assigned before a final decision on classifying the risk is reached. The purpose of using classifications is to separate risks into homogeneous groups to which rates can be assigned. Insurers may have their own classification and rating system, or they may obtain a system from a rating bureau.

POLICY FORMS.

After determining the acceptability of an applicant and assigning the proper classification and rating, the underwriter is ready to issue an insurance policy. The underwriter must be familiar with the different types of policies available as well as be able to modify the form to fit the needs of the applicant.

The first three underwriting functions—risk selection, classification and rating, and policy selection—are interdependent. That is, the underwriter determines that a certain risk is acceptable when specified rates and forms are used. The underwriter also performs a fourth separate function on every risk before the underwriting is complete: reinsurance.

RETENTION AND REINSURANCE.

Reinsurance involves protecting the insurance company against a certain portion of potential losses. Every risk presents the possibility of loss that will equal or exceed the policy limits. It is up to the underwriter to protect his or her company from undue financial strain. The underwriter does this by retaining only a certain portion of the risk and securing reinsurance for the remainder of the risk.

Grievances

Grievance Redressal System in LIC of India

In a vast organisation like LIC, catering to the various needs and aspirations of millions of policyholders, grievances of customers do arise occasionally. In order to redress these grievance LIC has established an elaborate Grievance Rederessal Machinery and the details are as under:

I) Grievance Redressal Officers:

Grievance Redressal Officers have been designated at all levels of the Organisation :

At the Branch level: The Sr/Branch manager Click here for the list (623 KB)

At the Divisional level: Manager, CRM Click here for the list (391 KB)

At the Zonal level: The Regional Manager CRM Click here for the list (232 KB)

At the Central level: The Executive Director CRM Click here for the list (13 KB)

For P&GS policies:

At the Zonal level: The Regional Manager (Pension and Group Schemes)

Policyholders can personally contact these designated Officials and seek redressal of their grievances.

The respective Grievance Redressal Officers are available at their Offices for personal interviews with the customers on all Mondays between 2.30 p.m. to 4.30 p.m., except on holidays without prior appointment.

Customers can meet the Grievance Redressal Officers on other days also with prior appointment.

The names of the Grievance Redressal Officers are displayed in the respective Offices and are periodically published in the local newspapers.

II) Claims Dispute Redressal Committees:

The Corporation settles a large number of Death Claims every year and adopts fair practices in the matter of settlement of claims. It is not the policy of the Corporation to repudiate a genuine claim. Furthering this cause, LIC pioneered the initiative of introducing an internal review mechanism in the year 1979 to give an opportunity to the claimants to appeal for review, whenever a claim is repudiated. The Claims Dispute Redressal Committee is functioning at the Corporate Level and all eight Zonal offices. The Central Office Claims Dispute Redressal Committee [CO CDRC] is functional at Central Office, Mumbai and the Zonal Office Claims Dispute Redressal Committee [ZO CDRC] is functioning in all Zonal Offices located at Delhi, Kanpur, Bhopal, Kolkata, Chennai, Hyderabad, Mumbai and Patna.

The Committee consists of senior officials at the Zonal/Central Office and a retired District/ High Court Judge.

Whenever a claim is repudiated, the claimant is explicitly informed of the grounds of repudiation and provided with the address of the Zonal Office Claims Dispute Redressal Committee (ZO-CDRC) to prefer his/her appeal.
If the decision to repudiate the claim is upheld by the said Committee, then depending on the net claim amount, the claimant is either provided with the address of the Insurance Ombudsman or with the address of the Central Office -Claims Dispute Redressal Committee (CO CDRC).
Again, if the decision to repudiate the claim is upheld by the CO-CDRC, the claimant is provided with the address of the Insurance Ombudsman to whom the claimant may prefer an appeal. (for details, please click on Insurance Ombudsman)
The internal mechanism for review of repudiated claims adopted by LIC has ensured transparency and confidence in our operations and has resulted in greater satisfaction amongst the claimants and policyholders.

III) Policyholder Councils And Zonal Advisory Boards:
In all the 113 Divisional Centres, Policyholders' Councils have been established. Three policyholders of the area represent the interest of the policyholders and interact with the Divisional Management on consumer concerns. Similarly, at all the eight Zonal Centres, Zonal Advisory Boards are functioning.

IV) Citizens' Charter:
LIC has adopted a Citizens Charter through which it reiterates its commitments to the customers and the standards for general procedures, the standards for policy servicing, the standards for easy access to information for customers and the standards for fairness in dealing with the customers have been laid down.

Report any breach of ethics to our Chief Vigilance Officer (429 KB)

Master Circular on Know Your Customer (KYC) norms/Anti-Money Laundering (AML) standards/Combating Financing of Terrorism (CFT)/Obligation of banks and financial institutions under Prevention of Money Laundering Act, (PMLA), 2002.

A. Purpose

- Banks and financial institutions (FIs) have been advised to follow certain customer identification procedure for opening of accounts and monitor transactions of suspicious nature for the purpose of reporting the same to appropriate authority.

- ❖ These ‘Know Your Customer’ (KYC) guidelines have been revisited in the context of the recommendations made by the Financial Action Task Force (FATF) on Anti Money Laundering (AML) standards and on Combating Financing of Terrorism (CFT).
- ❖ Detailed guidelines based on the recommendations of FATF and the paper issued on Customer Due Diligence (CDD) for banks by the Basel Committee on Banking Supervision (BCBS), with suggestions wherever considered necessary, have been issued.
- ❖ Banks/FIs have been advised to ensure that a proper policy framework on ‘Know Your Customer’ and Anti-Money Laundering measures is formulated and put in place with the approval of their Boards.

A list of circulars issued from time to time in this regard which are consolidated in this Master Circular is given in Annex – III

B. Application

i. The instructions, contained in the Master Circular, are applicable to All India Financial Institutions, all Scheduled Commercial Banks (including RRBs), Local Area Banks,/ All Primary (Urban) Co-operative Banks /State and Central Co-operative Banks.

ii. These guidelines are issued under Section 35A of the Banking Regulation Act, 1949 and Rule 9(14) of Prevention of Money-Laundering (Maintenance of Records) Rules, 2005. Any contravention thereof or non-compliance shall attract penalties under Banking Regulation Act.

1. Introduction

The objective of KYC/AML/CFT guidelines is to prevent banks/FIs from being used, intentionally or unintentionally, by criminal elements for money laundering or terrorist financing activities. KYC procedures also enable banks/FIs to know/understand their customers and their financial dealings better and manage their risks prudently.

2. Definitions

2.1 Customer

For the purpose of KYC Norms, a ‘Customer’ is defined as a person who is engaged in a financial transaction or activity with a reporting entity and includes a person on whose behalf the person who is engaged in the transaction or activity, is acting.

2.2 Designated Director

“Designated Director" means a person designated by the reporting entity (bank, financial institution, etc.) to ensure overall compliance with the obligations imposed under chapter IV of the PML Act and the Rules and includes:-

(i) **the Managing Director** or a whole-time Director duly authorized by the Board of Directors if the reporting entity is a company,

(ii) the Managing Partner if the reporting entity is a partnership firm,

(iii) the Proprietor if the reporting entity is a proprietorship concern,

(iv) the Managing Trustee if the reporting entity is a trust,

(v) a person or individual, as the case may be, who controls and manages the affairs of the reporting entity, if the reporting entity is an unincorporated association or a body of individuals, and

(vi) such other person or class of persons as may be notified by the Government if the reporting entity does not fall in any of the categories above.

Explanation. - For the purpose of this clause, the terms "Managing Director" and "Whole-time Director" shall have the meaning assigned to them in the Companies Act

. KYC Policy

Banks/FIs should frame their KYC policies incorporating the following four key elements:

i. Customer Acceptance Policy (CAP);
ii. Customer Identification Procedures (CIP);
iii. Monitoring of Transactions; and
iv. Risk Management.

3.1 **Customer Acceptance Policy (CAP)**

Banks/FIs should develop clear customer acceptance policies and procedures, including a description of the types of customers that are likely to pose a higher than average risk to the bank/FIs and including the following aspects of customer relationship in the bank/FIs.

3.2. **Customer Identification Procedure (CIP)**

3.2.1. General

(a) Customer identification means undertaking client due diligence measures while commencing an account-based relationship including identifying and verifying the customer and the beneficial owner on the basis of one of the OVDs.

Banks/FIs need to obtain sufficient information to establish, to their satisfaction, the identity of each new customer, whether regular or occasional, and the purpose of the intended nature of the banking relationship.

The bank/FI must be able to satisfy the competent authorities that due diligence was observed based on the risk profile of the customer in compliance with the extant guidelines in place.

Such risk-based approach is considered necessary to avoid disproportionate cost to the banks/FIs and a burdensome regime for the customers.

(b) Banks/FIs should have a policy approved by their Boards which should clearly spell out the Customer Identification Procedure to be carried out at different stages, i.e.,

- while establishing a banking relationship;
- while carrying out a financial transaction;
- when the bank/FI has a doubt about the authenticity or adequacy of the customer identification data it has obtained;
- when banks sell third party products as agents;
- while selling banks' own products, payment of dues of credit cards/sale and reloading of prepaid/travel cards and any other product for more than Rs. 50,000/-.
- (c) Banks/FIs may seek 'mandatory' information required for KYC purpose which the customer is obliged to give while opening an account or during periodic updation. Other 'optional' customer details/additional information, if required, may be obtained separately after the account is opened only with the explicit consent of the customer.
- 3.2.**2. I. Customer Due Diligence requirements (CDD) while opening accounts**
- **A. Accounts of individuals**:
- (i) For opening accounts of individuals, banks/FIs should obtain one certified copy of an 'officially valid document' (as mentioned at paragraph 2.3 above) containing details of identity and address, one recent photograph and such other documents pertaining to the nature of business and financial status of the customer as may be required by the bank/FI.
- (ii) E-KYC service of Unique Identification Authority of India (UIDAI) should also be accepted as a valid process for KYC verification under the PML Rules. The information containing demographic details and photographs made available from UIDAI as a result of e-KYC process is to be treated as an 'Officially Valid Document'.
- (iv) Simplified Measures for Proof of Identity:
- Simplified Measures for Proof of Address:
- banks/FIs should not insist on introduction for opening of bank accounts.
- Accounts of non-face-to-face customers
- With the introduction of phone and electronic banking, increasingly accounts are being opened by banks for customers without the need for the customer to visit the bank branch

Where the customer is a partnership firm, one certified copy of the following documents is required for customer identification:

(a) registration certificate;

(b) partnership deed and