BAOU
Education for All

Dr. Babasaheb Ambedkar
Open University
(Established by Government of Gujarat)

NAAC ACCREDITED A++ GRADE 3.55/4

BBA
SEMESTER - 4
BBACC403
BANKING & INSURANCE

Message for the Students

Dr. Babasaheb Ambedkar Open (University is the only state Open University, established by the Government of Gujarat by the Act No. 14 of 1994 passed by the Gujarat State Legislature; in the memory of the creator of Indian Constitution and Bharat Ratna Dr. Babasaheb Ambedkar. We Stand at the seventh position in terms of establishment of the Open Universities in the country. The University provides as many as 54 courses including various Certificate, Diploma, UG, PG as well as Doctoral to strengthen Higher Education across the state.

On the occasion of the birth anniversary of Babasaheb Ambedkar, the Gujarat government secured a quiet place with the latest convenience for University, and created a building with all the modern amenities named 'Jyotirmay' Parisar. The Board of Management of the University has greatly contributed to the making of the University and will continue to this by all the means.

Education is the perceived capital investment. Education can contribute more to improving the quality of the people. Here I remember the educational philosophy laid down by Shri Swami Vivekananda:

> ***"We want the education by which the character is formed, strength of mind is Increased, the intellect is expand and by which one can stand on one's own feet".***

In order to provide students with qualitative, skill and life oriented education at their threshold. Dr. Babaasaheb Ambedkar Open University is dedicated to this very manifestation of education. The university is incessantly working to provide higher education to the wider mass across the state of Gujarat and prepare them to face day to day challenges and lead their lives with all the capacity for the upliftment of the society in general and the nation in particular.

The university following the core motto 'स्वाध्याय: परमं तप: does believe in offering enriched curriculum to the student. The university has come up with lucid material for the better understanding of the students in their concerned subject. With this, the university has widened scope for those students who are not able to continue with their education in regular/conventional mode. In every subject a dedicated term for Self Learning Material comprising of Programme advisory committee members, content writers and content and language reviewers has been formed to cater the needs of the students.

Matching with the pace of the digital world, the university has its own digital platform Omkar-e to provide education through ICT. Very soon, the University going to offer new online Certificate and Diploma programme on various subjects like Yoga, Naturopathy, and Indian Classical Dance etc. would be available as elective also.

With all these efforts, Dr. Babasaheb Ambedkar Open University is in the process of being core centre of Knowledge and Education and we invite you to join hands to this pious *Yajna* and bring the dreams of Dr. Babasaheb Ambedkar of Harmonious Society come true.

Prof. Ami Upadhyay
Vice Chancellor,
Dr. Babasaheb Ambedkar Open University,
Ahmedabad.

Dr. Babasaheb Ambedkar Open University

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BBA

SEMESTER - 4

BBACC403

BANKING & INSURANCE

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Banking & Insurance

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Unit - 1
Introduction to Banking

1.1 Introduction

1.2 Meaning, Definition, and Origin of Banks

1.2.1 Meaning of Banks

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1.1 Introduction :

Banking in India has transformed remarkably over centuries, reflecting the nation's social and economic journey. In the earliest days, villagers managed their own savings and credit through simple arrangements. A farmer in rural Punjab might store surplus grain in a communal granary and then approach a local moneylender when cash was needed-for seeds or tools. The moneylender kept a handwritten record in a small notebook and lent funds based purely on trust and personal reputation. There were no formal rules, no bank accounts, and no digital records.

As trade routes expanded, merchants discovered the need for safer and more convenient ways to send value over long distances. They developed an informal instrument called a hundi an early form of promissory note. A trader in Surat could issue a hundi to his agent in Calcuta, allowing the agent to claim funds there without

moving actual coins. This system introduced key banking concepts such as credit, remitance, and negotiable claims, and it helped merchants do business across regions.

The moden era of Indian banking began under British rule. In 1806, the Bank of Bengal opened in Calcutta, followed by the Bank of Bombay in 1840 and the Bank of Madras in 1843. These colonial banks brought systematic record keeping, standardized accounting, and paper currency to India. However, they served mainly European businesses and wealthy Indians in urban centers. Many farmers, small traders, and rural households remained outside the formal banking network, relying instead on local moneylenders and informal credit systems.

After India gained independence in 1947, the government recognized the need to extend banking services to every citizen. In 1969 and again in 1980, major commercial banks were nationalized. This bold move led to a rapid expansion of branches, especially in rural and semi-urban areas. For the first time, millions of farmers could open savings accounts, artisans could borrow working capital, and small shopkeepers could secure loans. Banking became a tool for social and economic development, helping to reduce poverty and empower communities.

The economic reforms of 1991 ushered in a new era of liberalization. Private banks entered the market, bringing competition, improved customer service, and new technologies.

Automated teller machines (ATMs) appeared, and banks began computerizing account management. Internet banking followed, allowing customers to view balances and transfer funds from home or office.

The most dramatic change has come in the twenty-first century through digital innovation. In 2014, the Pradhan Mantri Jan-Dhan Yojana enabled millions of unbanked Indians to open zero-balance accounts. Soon after, the Unified Payments Interface (UPI) was launched, allowing instant fund transfers between any two bank accounts using a mobile phone. Today, a street vendor in Jaipur can receive digital l payments from a customer in Mumbai in seconds. A small artisan in Odisha can get government subsidies directly in her bank account without intermediaries. A young startup founder in Bengaluru can apply for a business loan on his smartphone and receive approval within days.

India's current banking landscape is a diverse eco system, It includes public sector banks such as the State Bank of India and Punjab National Bank, which have vast branch networks reaching remote villages. Private sector banks like HDFC Bank and ICICI Bank focus on technology-driven services and personalized products. Cooperative banks and regional rural banks cater to local communities and agricultural needs. Newer entities like payment banks and small finance banks address specific segments, such as digital payments and micro lending.

Together, these institutions perform three core functions: accepting deposits, providing credit, and facilitating payments. They also offer specialized services such as safe deposit lockers, foreign exchange, investment advisory, and insurance products. More than mere financial transactions, banks represent access, opportunity, inclusion, and empowerment. They help daily wage workers save securely, women entrepreneurs expand their businesses, migrant workers transfer money home affordably, students finance their education, and senior citizens receive pensions directly and safely.

Understanding this evolution from grain storage practices and hundis to colonial banks, nationalization, liberalization, and digital innovation reveals why banking is the backbone of India's economy and society. As you study this unit, you will explore the meaning and definition of banks, trace their historical development, examine their primary and secondary functions, understand their significance for ordinary people, and distinguish between traditional and modern banking practices. This journey will show how banking has adapted to meet India's changing needs and how it continues to evolve to serve every corner of our vast nation.

1.2 Meaning, Definition, and Origin of Banks :

1.2.1 Meaning of Banks

A bank in India is a financial intermediary licensed by the Reserve Bank of India (RBI). It accepts deposits from the public, lends money to borrowers, and provides related services. Bank function as a link between savers, who have surplus funds, and borrowers, who require financing for investments, consumption, or business expansion. In simple terms, banks are trusted institutions where people store their savings safely, borrow when needed, and carry out financial transactions.

1.2.2 Definitions of Banks

1. **Banking Regulation Act, 1949:**

   "Banking means the accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise, and withdrawable by cheque, draft, order or otherwise."

2. **Reserve Bank of India:**

   "A bank is a financial institution which accepts deposits from the public for the purpose of lending or investment and which also provides other related financial services,"

3. **Academic Definition:**

   A bank is a business organization that receives deposits, makes loans or extends credit, and transfers funds by written order of depositors.

All definitions emphasize three key features:

- Acceptance of public deposits
- Lending or investment of those funds
- Repayment through instruments like cheques, drafts, or digital transfers

1.2.3 Key Terms and Definitions

1. **Reserve Bank of India (RBI):** India's central bank, established in 1935, responsible for issuing currency, regulating banks, managing foreign exchange, and conducting monetary policy.
2. **Deposit Insurance and Credit Guarantee Corporation (DICGC):** RBI subsidiary set up in 1978 to insure deposits (up to 5 lakh per depositor per bank) and protect Small savers.
3. **Cash Reserve Ratio (CRR):** The share of a bank's total deposits that must be held as cash with the RBI (currently 4.5%), used to manage liquidity.
4. **Statutory Liquidity Ratio (SLR):** The portion of deposits banks must maintain in liquid assets (cash, gold, government securities), currently 18%, to ensure solvency.

5. **Priority Sector Lending (PSL):** RBI mandate for banks to allocate at least 40% of lending to agriculture, small enterprises, education, housing, and disadvantaged groups.
6. **Financial Inclusion:** Ensuring affordable financial services savings, credit, insurance, and payments reach all segments of society.
7. **Marginal Cost of Funds based Lending Rate (MCLR):** The minimum rate below which banks cannot lend, tied to their marginal cost of funds, introduced in 2016 for better policy transmission.
8. **Non-Performing Asset (NPA):** A loan where interest or principal is overdue by more than 90 days, signalling potential credit risk and requiring bank provisioning.
9. **Unified Payments Interface (UPI):** A real-time payment system by NPCI that allows instant inter-bank transfers via mobile apps, revolutionizing digital payments.

1.2.4 Origin and Evolution of Banking in India

➢ **Ancient and Medieval Period (Pre-1700)**

Banking in India began with infornal, community-based practices closely tied to agriculture and trade.

➢ **Vedic Period (1500-500 BCE):** Ancient texts such as the Manusmriti and Arthashastra mention lending and borrowing. Temples and granaries served as safe storage for grain and precious metals, efectively acting as early deposit centers.

– **Indigenous Systems:** Village assemblies and merchant guilds provided credit and managed collective savings.

➢ **Medieval Period (1000-1700 CE):**

– Shrofis and Sarrafs functioned as indigenous bankers, offering currency exchange, remittance, and deposit services along trade routes.

– Hundis emerged as negotiable instruments (similar to bills of exchange) to finance long-distance trade.

– Community banking evolved through caste and community-based lending networks supporting local artisans and small traders.

- **Colonial Era (1700-1947)**

  The British introduced formal banking institutions to support commercial trade and revenue administration.

- **Early Banks:**

  - **Bank of Hindustan (1770):** First European-style bank, established in Calcutta for trade financing; ceased operations by 1832.
  - **General Bank of India (1786):** Short-lived due to economic instability.
  - **Bank of Calcutta (1806):** Renamed Bank of Bengal in 1809; one of the three Presidency Banks.

- **Presidency Banks (1809-1843):**

  - **Bank of Bengal, Bank of Bombay (1840), Bank of Madras (1843)** acted as quasi-central banks, issuing currency, managing government funds, and providing commercial services.
  - **Imperial Bank of India (1921):** Formed by merging the three Presidency Banks; became India's largest commercial bank and principal banker to the governnment.

- **Rise of Indian-Owned Banks:**

  - **Allahabad Bank (1865):** First fully Indian-owned bank, founded by local merchants.
  - **Punjab National Bank (1894):** Established by Dayanand Anglo-Vedic College Trust to promote indigenous banking.
  - **Bank of India (1906):** Formed by Gujarati businessmen to serve Indian traders.
  - **Central Bank of India (1911):** Founded by Sir Sorabji Pochkhanawala to support Indian industry.

- **Post-Independence Era (1947-1991)**

  Independent India restructured its banking sector to promote social welfare and economnic development.

– **Reserve Bank of India (1935/1949):** Established under British rule in 1935: nationalized development. in 1949 to serve as the central bank, responsible for currency issuance, monetary policy, and bank regulation.

– **Banking Regulation Act (1949):** Introduced a comprehensive legal framework for licensing, regulation, and supervision of banks.

➢ **Nationalization of Commercial Banks:**

– **State Bank of India (1955):** Imperial Bank converted into SBI to extend services into rural areas.

– **First Phase (1969):** Fourteen large private banks (deposits over ₹ 50 crore) were nationalized to broaden outreach.

– **Second Phase (1980):** Six additional banks nationalized, increasing public sector share to over 80 percent.

– **Objectives of Nationalization:** Extend banking to rural and semi-urban regions, direct credit to priority sectors (agriculture, small industry, exports), reduce concentration of economic power, and support state-led planning.

➢ **Rural Banking Development:**

– **Regional Rural Banks (1975):** Created to serve rural communities, sponsored by commercial banks.

– **Lead Bank Scheme:** Each district assigned to a sponsor bank for coordinated development.

– **Branch Licensing Policy:** Required opening of branches in unbanked rural areas for every new urban branch.

➢ **Liberalization and Modern Era (1991-Present)**

Financial sector reforms and technology transformed banking into a competitive, inclusive system.

– **Economic Liberalization (1991):** Reduced government ownership, permitted new private banks, strengthened prudential norms, and improved corporate governance.

– **Narasimhan Committee (1991, 1998):** Recommended operational flexibility, capital adequacy standards, improved asset quality, and non-performing asset recognition.

– **Emergence of New Private Banks:** HDFC Bank (1994), ICICI Bank (1994), Axis Bank (1993) pioneered customer-centric services and technology adoption.

– **Foreign Bank Entry:** Liberalized norms attracted international banks, enhancing competition and best practices.

– **Technology Revolution:** -Core Banking Solutions enabled real-time, anywhere banking.

– ATM networks provided round-the-clock cash access.

– Internet and mobile banking platforms expanded reach to rural areas.

➢ **Financial Inclusion Initiatives:**

– **Pradhan Mantri Jan-Dhan Yoiana (2014):** Over 46 crore zero-balance accounts opened, giving millions formal financial identities.

– **Payment Banks (2015):** Specialized institutions offering deposits and remittances for low-income segments.

– **Small Finance Banks:** Focused on micro-credit and small business lending.

➢ **Digital Payments Ecosystem:**

– **Unified Payments Interface (UPI):** Processed over 10 billion transactions monthly, enabling instant inter-bank transfers via mobile apps.

– Digital India Initiative accclerated adoption of cashless payments.

– Fintech Partnerships introduced innovative services such as peer-to-peer lending, digital wallets, and AI-driven credit scoring.

– This evolution shows how Indian banking has grown from informal practices to a modern, inclusive system that underpins economic activity and social progress across the country.

1.3 Functions of Commercial Banks :

Commercial banks perform a broad spectrum of activities that sustain economic growth, ensure financial stability, and serve the needs of individuals and businesses. Their roles can be classified into primary functions, which form the backbone of banking operations, and secondary functions, which enhance customer convenience and generate fee-based income.

1.3.1 Primary Functions

- **Accepting Deposits**

Accepting deposits is the foundational service offered by banks. By collecting funds from surplus units (savers) and safeguarding them, banks mobilize household and business savings for productive use.

Types of deposit accounts include:

– **Savings Accounts**

Savings accounts encourage individuals to set aside part of their income for future use while retaining easy access to funds. Customers receive a periodic statement or passbook recording transactions. Banks pay a modest rate of interest on the deposited balance.

– **Zero-Balance Accounts**

Under government financial inclusion initiatives, banks offer zero-balance accounts to ensure that even low-income and unbanked customers can open and maintain accounts without meeting minimum balance requirements. These accounts often come with basic debit“cards and insurance cover.

– **Current Accounts**

Businesses, traders, and professionals use current accounts for high-volume transactions. These accounts allow unlimited deposits and withdrawals, cheque issuance, and overdraft facilities. Interest is typically not paid, but account holders benefit from transaction flexibility.

– **Fixed Deposits (Term Deposits)**

Fixed deposits involve placing a lump sum with the bank for a

predetermined tenure. In exchange, banks offer a higher interest rate than savings accounts. Premature withdrawal incurs a penalty, though customers can obtain loans against their fixed deposits.

– **Recurring Deposits**

Under recurring deposit schemes, customers commit to depositing a fixed sum every month for a chosen period. This inculcates savings discipline and enables customers to accumulate a substantial corpus over time. Interest earned is comparable to fixcd deposits.

➢ **Granting Loans and Advances**

Banks use the deposits mobilized from various accounts to extend credit, earning interest income that constitutes their primary revenue source. **Key lending products include:**

– **Overdraft and Cash Credit**

Cash credit and overdraft facilities allow businesses and professionals to draw funds beyond their account balance, up to an agreed limit, by pledging inventory or receivables as security. Interest is charged only on the amount utilized.

– **Personal Loans**

These unsecured loans help individuals meet personal expenses such as weddings, medical emergencies, or travel. Banks assess creditworthiness based on the applicant's income and credit history and offer flexible repayment options.

– **Home Loans**

Long-tem funding is provided for purchase, construction, or renovation of residential property. Banks evaluate the borrower's repayment capacity and the property's value before granting a loan. Home loans often carry tax benefits and are supported by government subsidy schemes for eligible applicants.

– **Business and MSME Loans**

Micro, Small, and Medium Enterprises receive loans for working

capital, purchase of machinery, and business expansion. Special government-backed programs offer collateral-free credit to first-generation entrepreneurs and small business owners, reducing entry barriers and promoting entrepreneurship.

– **Agricultural Loans**

Farmers access short-term and long-term credit for crop cultivation, purchase of equipment, and land development. Special credit cards provide flexible limits and simplified documentation. Government interest subvention schemes further reduce borrowing costs for timely repayment.

– **Education Loans**

Students borrow to finance higher education domestically and abroad, Loan amounts cover tuition fees, living expenses, and other educational costs. Moratorium periods during the course of study and government subsidics for economiclly weaker sections make education loans more affordable.

➢ **Credit Creation Process**

By lending a portion of deposits and maintaining required reserves, banks create additional money in the economy. When a bank extends a loan, the borrower spends the funds, which are then redeposited in other banks, Each cycle of deposit and lending increases the total money supply, amplifying the initial deposit's impact on economic activity.

1.3.2 Secondary Functions

➢ **Agency Functions**

Banks act as agents for customers, providing various collection, payment, and investment services for a fee:

– **Collection and Payment Services**

Banks collect cheques and bills on behalf of customers through clearinghouses, process recurring payments such as utility bills and insurance premiums via electronic clearing systems, and disburse

salaries directly into employees' accounts.

- **Investment and Advisory Services**

  Banks distribute a range of mutual fund products, facilitate systematic investment plans, offer portfolio advisory, and act as corporate agents to sell life and general insurance policies. They also enable retail investors to buy government securities, contributing to capital market development.

➢ **General Utility Functions**

These services enhance customner convenience and provide non-interest income:

- **Safe Deposit Lockers**

  Secure vaults protect valuables, documents, and jewellery. Customers rent lockers and receive keys to a compartment within a bank's strong room, ensuring peace of mind.

- **Foreign Exchange and Remittances**

  Banks exchange currencies for travellers and businesses, and handle outward and inward international fund transfers through secure global networks. This service supports cross- border trade, remittances from migrant workers, and educational payments.

- **Trade Services**

  Letters of credit and bank guarantees facilitate domestic and international trade by ensuring payment or performance on behalf of clients. Banks evaluate credit risk and provide instruments that build trust between buyers and sellers.

- **Digital Banking Services**

  Internet and mobile banking platforms enable customers to view account balances, transfer funds, pay bills, and open fixed or recurring deposits from anywhere. Instant payment systems allow peer-to-peer transfers using mobile numbers or QR codes, Biometric authentication and multi-factor security safeguard transactions. Messaging platforms

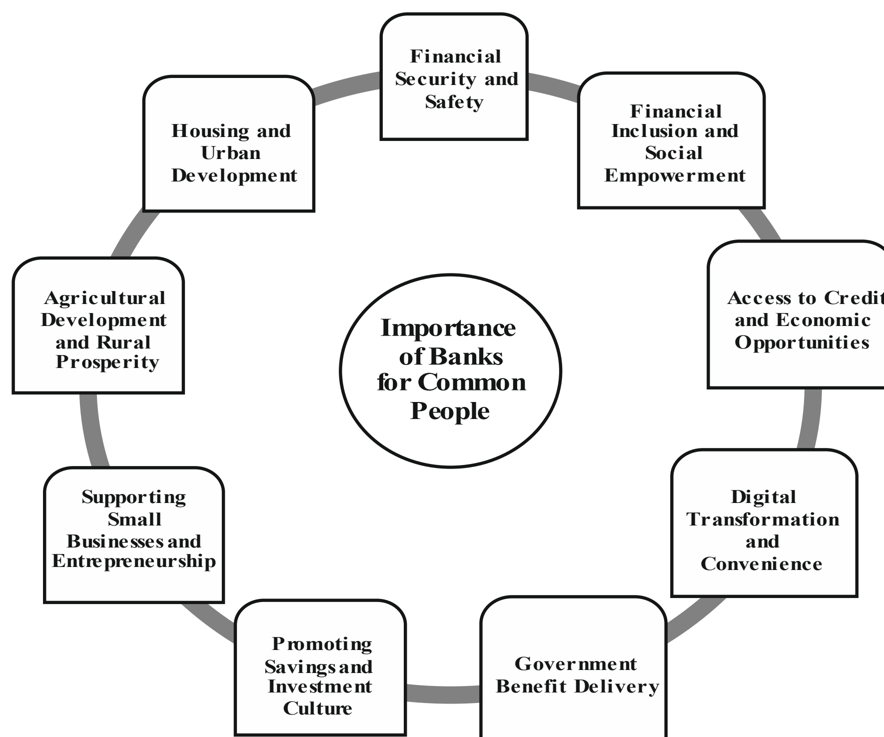
extend banking services through chatbots, enabling balance enquiry and transaction alerts on popular social media apps.

– **ATM Services**

Automated Teller Machines provide round-the-clock access to cash withdrawal, deposits, and mini-statements. Interoperability through a national switch allows customers to use machines of other banks for a nominal fee.

1.4 Importance of Banks for Common People :

Banks have grown from simple depositories of cash into comprehensive financial partners. Their services empower individuals, ensure economic stability, and support community development.



➢ **Financial Security and Safety**

Banks offer a secure environment for people's savings. Instead of keeping cash at home where it is vulnerable to theft, fire, or loss depositors place their funds in accounts that are protected by government-backed insurance. This protection gives every account holder peace of mind, knowing that their savings are safe and accessible when needed.

In addition, banks distribute a range of insurance products to help customers manage life's uncertainties. Life insurance policies provide families with financial support in the event of a breadwinner's death. Health insurance plans cover medical treatment costs, preventing medical emergencies from becoming financial crises. Farmers can protect their livelihoods through crop insurance, which compensates for losses caused by adverse weather. Accident and disability coverage help cover expenses and lost incomc when individuals suffer unexpected injuries.

- **Financial Inclusion and Social Empowerment**

Bringing unbanked populations into the formal financial system is a major achievement of modern banking. Simplified account-opening processes, combined with outreach efforts in remote areas, have enabled people who previously lacked any bank access to open and operate savings accounts. These first-time account holders receive debit cards and learn to perform basic transactions, which introduces them to formal financial services and builds confidence in banking institutions.

Rural banking models such as community-based banks and local banking agents extend services to villages and small towns. Local branches and authorized representatives enable customers to make deposits, withdraw cash, and apply for small loans without traveling long distances. By embedding banking services in local communities, banks foster economic activity, support local enterprises, and contribute to rural development.

- **Access to Credit and Economic Opportunities**

Access to affordable credit transforms lives. Microcredit programs provide small, collateral-free loans to artisans, farmers, and small entrepreneurs, enabling them to start or expand businesses. These loans often come with supportive training and mentoring to help borrowers develop sustainable livelihoods.

Group lending models, such as self-help groups, allow members to guarantee each other's loans. This collective approach reduces individual risk and encourages mutual support. Group members save together, share knowledge, and support joint enterprises strengthening social bonds and building local economic resilience.

Educational financing opens doors for students from modest backgrounds. Banks offer student loans to cover tuition, living expenses, and materials. Flexible repayment schedules and interest concessions during study periods ensure that education remains within reach, empowering young people to pursue careers and contribute to society.

- **Digital Transformation and Convenience**

The rise of digital banking has dramatically improved convenience and access. Real-time payment systems enable instant transfers between accounts, eliminating the need to carry cash and reducing transaction times. Mobile and internet banking platforms allow customers to check balances, pay bills, and transfer funds from anywhere, at any time.

Even customers without smartphones can use basic banking services through USSD-based systems, entering simple codes to perform transactions on feature phones. Regional language support in mobile apps and interactive voice response systems breaks down literacy barriers, ensuring that customers across diverse backgrounds can manage their finances independently.

- **Government Benefit Delivery**

Banks serve as the delivery channel for government welfare programs. Direct credit of subsidies, pensions, and wages to bank accounts eliminates intermediaries and leakages, ensuring that beneficiaries receive the full entitlements. Public employment programs credit wages directly to worker accounts, linking participants to formal banking and encouraging long-ternm financial inclusion.

- **Promoting Savings and Investment Culture**

Banks encourage disciplined saving through systematic plans. Recurring deposit schemes allow customers to commit to regular contributions, helping them build funds for specific goals such as education, healthcare, or home inmprovements. Such predictable saving habits foster financial planning and resilience.

Through mutual fund distribution and government securities services, banks offer customers access to diversified investment products. Advisory services

guide individuals in selecting suitable options, helping them grow wealth over time and plan for the future.

- **Supporting Small Businesses and Entrepreneurship**

  Priority sector mandates require banks to allocate credit to underserved segments, including small industries and rural enterprises. Specialized schemes provide concessional financing, credit guarantees, and mentoring support. Women entrepreneurs and socially disadvantaged groups receive tailored assistance combining favouralble loan terms with capacity-building programs to launch and scale enterprises. This ecosystem of financial and non-financial support drives innovation and job creation.

- **Agricultural Development and Rural Prosperity**

  Agricultural lending is tailored to seasonal and cyclical needs. Banks extend short-term credit for crop cultivation and long-term finance for land development and equipment. Integrated insurance products protect farmers against weather risks and market fluctuations.

  Technology-enabled services such as remote crop assessment and automated claim triggers streamline loan processing and insurance payouts. By linking farmers to markets and financial services, banks enhance agricultural productivity and rural income stability.

- **Housing and Urban Development**

  Banks facilitate access to housing finance for low- and middle-income families through affordable loan schemes and streamlined documentation. Subsidized interest rates and flexible tenure options reduce the burden of monthly repayments, enabling more households to purchase or upgrade homes. This support drives urban expansion and improves living conditions in growing towns and cities.

  Through these roles safeguarding savings, extending credit, promoting inclusion, delivering government benefits, encouraging investment, and supporting ventures banks empower ordinary people, strengthen communities, and fuel economic progress across India.

1.5 Difference between Traditional and Modern Banking :

The transformation of banking in India from traditional branch-based systems to modern, technology-driven institutions marks a profound shift in how financial services are delivered and experienced. Traditional banking was characterized by limited accessibility, manual operations, and physical documentation, which often restricted services to urban locations and required customers to visit branches during fixed hours, In contrast, modern banking embraces digital innovation, offering anytime-anywhere access through mobile apps, internet banking, and instant payment platforms like UPI. This evolution has expanded the reach of banking services to rural and remote areas, inmproved efficiency, enhanced security, and introduced personalized financial products. Understanding the key differences between traditional and modern banking in India provides insight into how the sector has evolved to meet changing customer needs and support economic growth more inclusively and effectively.

➢ **Service Delivery and Accessibility**

Aspect	**Traditional Banking**	**Modern Banking**
Service Channels	Only physical branches	Branches, ATMs, internet, mobile apps, UPI
Operating Hours	Fixed hours (limited to business days)	24/7 digital access, extended branch hours
Geographic Reach	Limited to branch locations	Nationwide access through digital platforms
Queue Management	Long physical queues and token system	Digital queues appointmnent bookings, self-service
Documentation	Paper-based, multiple physical forms	Digital forms, e-KYC, remote verification

➢ **Technology Integration**

Aspect	Traditional Banking Technology	Modern Banking Technology
Record Keeping	Manual ledgers and handwritten entries	Core Banking Solutions with real-time processing
Documnent Handling	Typewriters, paper files	Digital document storage and automated workflows
Calculations	Basic calculators	AI-driven analytics and automated credit scoring
Communication	Limited telephone banking	Mobile apps bookings, self-service
Documentation	Paper-based, multiple physical forms	Digital forms, e-KYC, remote verification

➢ **Payment Systems Evolution**

Aspect	Traditional Payments	Modern Payments
Payment Methods	Cash, cheques, demand drafts	UPI, IMPS, NEFT, RTGS, cards
Processing Speed	Days for inter-city payments	Instant transactions
International	Complex, slow, high cost	Online SWIFT, same-day transfers
Merchant Payments	Mostly cash	Digital payments via QR codes
Bill Payments	Physical visits to offices	Online and mobile bill payments

- **Customer Onboarding and KYC**

Aspect	Traditional KYC	Modern e-KYC
Documentation	Physical certificates, original documents	Aadhaar biometric authentication, digital uploads
Verification	Multiple branch visits, manual checking	Video KYC, instant digital verification
Turnaround Time	Several days to weeks	Instant or same-day account opening
Geographic Access	Account opening only at local branch	Open accounts anywhere in India through apps
User Convenience	Manual process, time-consuming	Simplified, paperless, remote process

- **Product Innovation and Customization**

Aspect	Traditional Products	Modern Products
Product Range	Limited standardized accounts and loans	Customized, AI-personalized banking products
Accessibility	Local and branch-specific offerings	Nationwide digital product availablity
Pricing	Fixed interest and charges	Dynamic pricing based on customer seniors
Customer Segments	Few differentiated offerings	Multiple niche products for students, seniors
User Interaction	Relationship manager dependent	Self-service apps with gamified features

- **Risk Management and Security**

Aspect	Traditional Security	Modern Security
Authentication	Signature-based manual verification	Multi-factor autentication, biometrics
Fraud Detection	Reactive, complaint -based	Real-time AI and behavioral anomaly detection
Data Security	Physical vaults, guarded records	Encryption and cybersecurity protocols
Transaction Safety	Manual checks and balances	Automatic checks, smart contracts (blockchain)
Regulatory Compliance	Manual monitoring and reporting	Automated adherence with real-time alerts

- **Risk Management and Security**

Aspect	Traditional Security	Modern Security
Authentication	Signature-based manual verification	Multi-factor authentication, biometrics
Fraud Detection	Reactive, complaint -based	Real-time AI and behavioral anomaly detection
Data Security	Physical vaults, guarded records	Encryption and cybersecurity protocols
Transaction Safety	Manual checks and balances	Automatic checks, smart contracts (blockchain)
Regulatory Compliance	Manual monitoring and reporting	Automated adherence with real-time alerts

- **Financial Inclusion Impact**

Aspect	Traditional Inclusion Barriers	Modern Inclusion Solutions
Branch Availability	Concentrated in urban areas	Business correspondents and agents in rural areas
Minimum Balance	Required minimum balances	Zero balance accounts through Jan Dhan Yojana
Application Process	Complex paperwork and verification	Simplified Aadhaar-based e-KYC
Language Support	English and Hindi mainly	Regional language support in apps
Literacy Issues	Discouraging for illiterates	User-friendly digital tools with visual aids

- **Cost Structure and Operational Efficiency**

Aspect	Traditional Cost Drivers	Modern Efficieney Factors
Infrastructure	High costs for branches and physical setup	Cload computing, reduced physical infrastructure
Staffing	Large manual processing workforce	Automation and robotics staff needs
Paperwork	High paper handling and document storage	Paperless systems and digital recordkeeping
Sealability	Limited by branch capacity	Technology enables vast scaling without major cost
Transaction Cost	High per-transaction cost	Lowered significantly through online automation

➢ **Data Analytics and Customer Insights**

Aspect	Traditional Data Processing	Modern Analytics
Data Scope	Transaction history and balance only	Comprehensive multi-channel customer profiles
Processing	Manual report generation	Real-time data processing and predictive analytics
Marketing	Broad, undifferentiated efforts	Highly targeted, personalized campaigns
Credit Decisions	Based on documented past performance	AI-assisted risk modeling and dynamic decisioning
Fraud Prevention	After-the-fact investigations	Proactive, AI-driven fraud prediction and alerts

➢ **Environmental and Social Impact**

Aspect	Traditional Environmental Footprint	Modern Sustainable Practices
Paper Use	Extensive usage of passbooks, forms	Use of digital documents, e-statements
Travel	Frequent trips to branches required	Remote access reduces travel and emissions
Energy Consumption	High energy use for large branch networks	Efficient data centers and cloud technologies
Population Reach	Limited to physical branch locations	Digital services enable remote rural inclusion
Social Equity	Services often inaccessible to marginalized groups	Focus on inclusion through vernacular apps and zero-balance accounts

This transformation from traditional to modern banking has democratized financial services in India, making them accessible, affordable, and efficient for all sections

of society while promoting financial inclusion and economic development.

1.6 Summary :

The importance of banking has grown enormously over the years, particularly in the Indian context where it has played a pivotal role in the country's social and economic development. Traditionally, banking services were limited and largely confined to urban areas with physical branches, fixed operating hours, manual record-keeping, and mostly paper-based systems. This created challenges for accessibility, especially for rural populations, and limited financial inclusion. However, modern banking has significantly changed this scenario by incorporating advanced technology, digital platforms, and customer-centric services that have expanded access and improved convenience.

Today's banking system provides multiple ways for customers to access financial services, including mobile apps, internet banking, ATMs, and digital payment systems like UPI that make banking available 24/7 and anywhere in the country. This has removed many barriers that once prevented people, especially from rural areas and disadvantaged groups, from participating in the formal financial sector. Digital onboarding processes such as e-KYC enable customers to open accounts quickly and remotely, without the need to visit a branch or submit physical documents.

Technological advances have also allowed banks to enhance the safety and security of transactions with features like multi-factor authentication, encryption, and real-time fraud detection. Customer data analytics help banks understand user behaviour, personalize products, and improve credit risk assessments. Furthermore, the digital revolution has given rise to convenient and instant payment methods that reduce dependence on cash and promote transparency.

Through robust financial inclusion initiatives, banks have become instrumental in improving the lives of ordinary people by offering zero-balance accounts, micro credit facilities for small businesses, and education loans for students from economically weaker backgrounds. Banks also support government welfare programs by directly transferring subsidies and employment wages to beneficiaries, ensuring transparency and reducing leakages.

In summary, Indian banking has transitioned from a limited, branch-based model to a comprehensive, technology-driven system focused on accessibility, security, and financial inclusion. This transformation supports economic growth by empowering individuals, fostering entrepreneurship, and providing financial stability to millions across the nation. Understanding this evolution helps appreciate how modern banking addresses the diverse needs of India's population while driving sustainable development.

1.7 Exercise :

Q.1 Multiple Choice Questions (MCQS)

1. Which of the following is the earliest form of promissory note used by Indian traders?

   a) Hundi b) Cheque

   c) Demand Draft d) Letter of Credit

   Answer: a) Hundi

2. When was the Bank of Bengal established?

   a) 1840 b) 1806 c) 1894 d) 1911

   Answer: b) 1806

3. What is the primary function of commercial banks?

   a) Accepting deposits and lending money

   b) Conducting foreign trade

   c) Issuing government bonds

   d) Providing insurance

   Answer: a) Accepting deposits and lending money

4. What initiative helped millions of Indians open zero-balance bank accounts?

   a) MUDRA Loan Scheme

   b) Digital India Campaign

c) Pradhan Mantri Jan-Dhan Yojana

d) Swadeshi Movement

Answer: c) Pradhan Mantri Jan-Dhan Yojana

5. What does UPI stand for?

a) Unified Payment Interface b) Universal Public Investment

c) United Payment Initiative d) Unified Private Insurance

Answer: a) Unified Payment Interface

6. Who regulates banks in India?

a) Ministry of Finance

b) Reserve Bank of India

c) Securities and Exchange Board of India

d) State Bank of India

Answer: b) Reserve Bank of India

7. What major event in 1969 impacted Indian banking?

a) Bank nationalization b) Launch of UPI

c) Industrial Revolution d) Introduction of ATMs

Answer: a) Bank nationalization

8. Which technology allows banks to provide 24/7 services now?

a) Typewriters

b) Telegraph

c) Manual ledger entries

d) Core Banking Solutions and Mobile Banking

Answer: d) Core Banking Solutions and Mobile Banking

9. What is a key feature of modern banking KYC?

    a) Aadhaar-based biometric authentication

    b) Physical document submission only

    c) In-person branch verification only

    d) Handwritten forms

    Answer: a) Aadhaar-based biometric authentication

10 Which bank was formed by merging Presidency banks?

    a) State Bank of India   b) Punjab National Bank

    c) Imperial Bank of India   d) Bank of Hindustan

    Answer: c) Imperial Bank of India

Q.2 Long Answer Questions

1. Describe the evolution of banking in India from ancient times to the present digital era.
2. Explain the primary functions of commercial banks and their significance in the cconomy.
3. Compare traditional banking with modern banking in terms of service delivery and technology.

Q.3 Short Answer Questions

1. Define a bank in the Indian context.
2. What role did the colonial era play in shaping Indian banking?
3. What is the importance of the Reserve Bank of India?
4. List any two financial inclusion initiatives by the Indian government.
5. What are the three core functions of banks?
6. Mention two types of deposit accounts offered by banks.
7. How do banks facilitate payments in the modern digital era?

8. What is the significance of credit creation by banks?
9. Explain the concept of non-performing assets (NPA).
10. How do digital banking apps help rural customers?

Q.4 Fill in the Blanks

1. In early rural India, savings and credit were managed informally by_________ and local practices rather than formal bank institutions.
2. The _____________ is the central bank of India responsible for issuing currency and regulating commercial banks.
3. The introduction of___________ revolutionized instant digital fund transfers between any two bank accounts through mobile phones.
4. The _______________ scheme enabled millions of Indians to open zero-balance accounts and promoted financial inclusion.
5. Traditionally, banks relied on _____________ documentation, but modern banks use digital forms and e-KYC.

Answers

1. moneylenders
2. Reserve Bank of India
3. Unified Payments Interface (UPI)
4. Pradhan Mantri Jan-Dhan Yojana
5. paper-based

Q.5 True or False

1. Banks only serve urban populations and have no role in rural development.
2. Modern banking allows customers to carry out transactions anytime and anywhere through digital channels.

3. Nationalization of banks in India aimed to broaden banking outreach and reduce economic power concentration.
4. Savings accounts and current accounts are both designed primarily for high-frequency business transactions.
5. Digital banking has played a significant role in improving financial inclusion in India.

Answers: False, True, True, False, True

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Unit - 2
Banking Structure in India

2.1 Introduction

2.2 Classification of Banks in India

2.3 Difference between Scheduled and Non-scheduled Banks

2.4 Role of Public Sector Banks vs. Private Sector Banks

2.5 Cooperative Credit Institutions

2.6 Regional Rural Banks and Local Area Banks

2.7 Foreign Banks in India

Exercise

2.1 Introduction :

The banking system of India is one of the strongest and most organized financial systems in the world. It plays a very important role in the economic development of the country. Banks act as financial intermediaries, which means they collect money from people who have extra funds (depositors) and lend that money to people who need funds for business, agriculture, industry, education, housing, and other activities. By doing this, banks help in the smooth flow of money in the economy and support overall growth.

The Indian banking structure has been developed in a systematic and planned manner. It works under the control of the Reserve Bank of India (RBI), which is the central bank of the country. RBI makes rules and regulations for all banks and ensures that banking operations remain safe, transparent, and efficient. The Indian banking structure is divided into different types of banks, each performing specific functions for different groups like farmers, industries, small businesses, rural areas, urban customers, and government sectors.

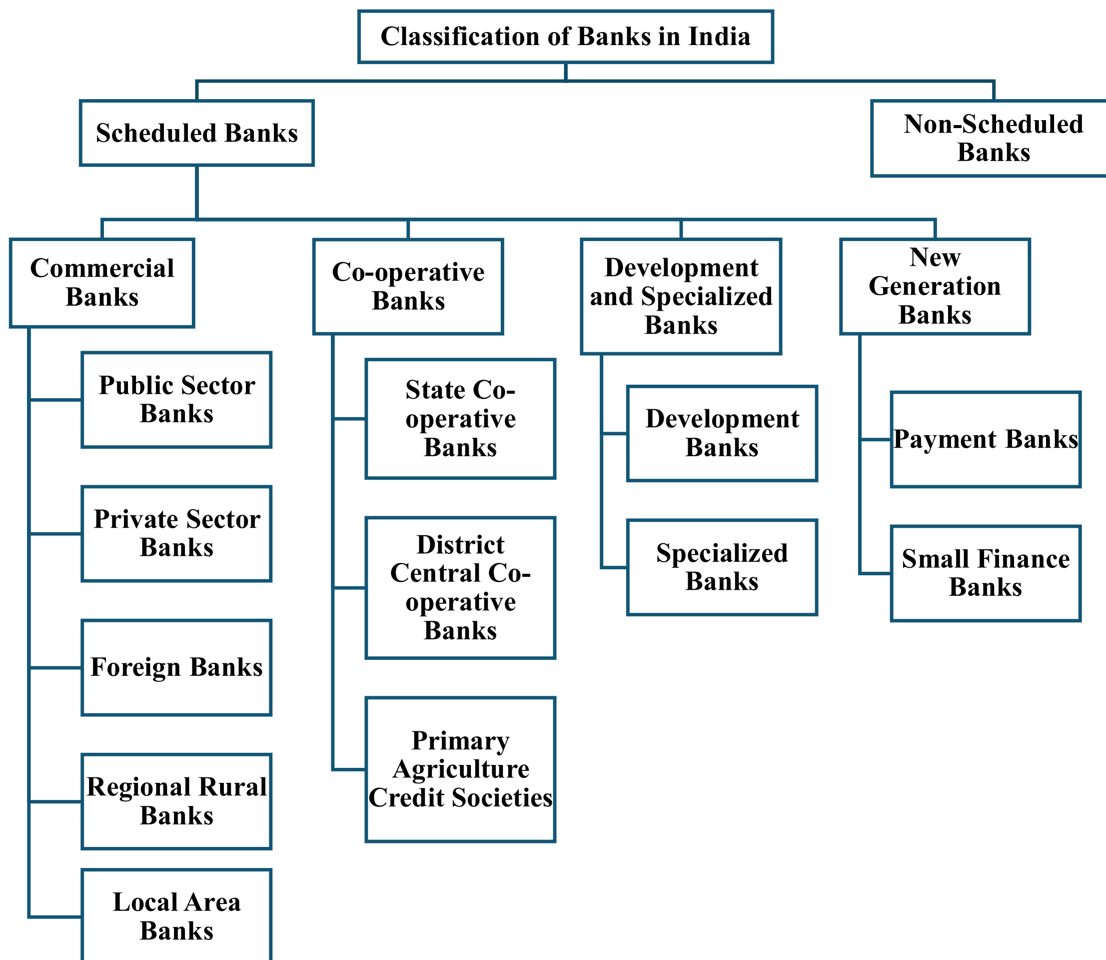
India's banking system has grown and changed a lot over the years. Earlier, banks mainly focused on basic activities like accepting deposits and giving loans. But today, due to technology and modernization, banks offer a wide range of services

such as mobile banking, internet banking, UPI payments, digital wallets, credit cards, investment services, insurance products, and many more. This has made banking fast, convenient, and accessible to people even in remote areas.

The government and RBI have taken many steps to strengthen and expand the banking network, such as bank nationalization, financial inclusion programs, Jan Dhan Yojana, and digital payment systems. As a result, India today has a broad and diverse banking structure that meets the needs of all sections of society.

Overall, the banking structure of India is designed to ensure financial stability, promote economic development, encourage savings, support business growth, and provide convenient financial services to millions of people. A strong and efficient banking system is essential for a strong and developing economy, and India's banking structure is continuously evolving to meet modern needs.

2.2 Classification of Banks in India :



1. **Scheduled Banks:** Scheduled banks are those banks that are included in the Second Schedule of the RBI Act, 1934. These banks follow all rules and regulations of the RBI and maintain a minimum cash reserve with the RBI. Because they are recognized by RBI, they are considered safe and reliable. They can also borrow money from the RBI during financial emergencies.

a. **Commercial Banks**

i. **Public Sector Banks (PSBs):** Public sector banks are banks where the Government of India owns more than 51% of the shares. These banks are known for their large network of branches across the country, especially in rural and semi-urban areas. They provide banking services to a wide range of people and support government programs for financial inclusion.

ii. **Private Sector Banks:** Private sector banks are owned and managed by private individuals or companies. They focus more on customer service, modern technology, digital banking, and faster services. These banks have grown rapidly due to their efficiency, innovation, and customer-friendly approach.

iii. **Foreign Banks:** Foreign banks are those banks that have their head office in another country but operate in India through branches. They offer advanced financial services, mainly to multinational companies, large corporates, and high-income customers. These banks bring international banking practices and global expertise into the Indian market.

iv. **Regional Rural Banks (RRBs):** Regional rural banks are created to provide banking services specifically in rural areas. Their main aim is to support farmers, agricultural workers, small shopkeepers, and rural artisans by offering affordable loans and savings services. These banks are jointly owned by the Central Government, State Government, and a sponsor bank.

v. **Local Area Banks:** Local area banks operate within a small geographical area, usually one or a few districts. They focus on meeting the financial

needs of local people, traders, and small businesses. Their limited area operation allows them to understand the local economy better.

b. Co-operative Banks

i. **State Co-operative Banks (SCBs):** State co-operative banks operate at the state level and supervise the working of district co-operative banks. Their main purpose is to provide financial support to co-operative societies and strengthen the rural credit system.

ii. **District Central Co-operative Banks (DCCBs):** DCCBs work at the district level and act as a link between state co-operative banks and primary credit societies. They provide loans to farmers, small borrowers, and local co-operative societies at moderate interest rates.

iii. **Primary Agriculture Credit Societies (PACS):** PACS work at the village level and are the smallest unit of the co-operative banking system. They offer short-term loans to farmers for buying seeds, fertilizers, and other agricultural needs. They help in providing credit to rural households quickly and easily.

c. Development and Specialized Banks

i. **Development Banks:** Development banks provide medium and long-term finance for industrial projects, infrastructure development, and economic growth. They help industries grow by offering loans for building factories, purchasing machinery, and expanding business.

ii. **Specialized Banks:** These banks are set up for specific purposes such as supporting exports, agriculture, small industries, or housing. For example, EXIM Bank supports export and import businesses, while NABARD helps in the development of rural and agricultural sectors.

d. New Generation Banks

i. **Payments Banks:** Payments banks operate mainly through digital platforms. They can accept small deposits, provide payment services, and help people transfer money easily. However, they cannot give loans. They aim to offer convenient banking services to small households and low-income groups.

ii. **Small Finance Banks:** Small finance banks are created to provide banking services to small businesses, micro-entrepreneurs, and low-income customers. They can accept deposits and also give small loans. They help in reaching areas where large commercial banks may not have branches.

2. **Non-Scheduled Banks:** Non-scheduled banks are smaller banks that are not listed in the Second Schedule of the RBI Act. They do not have direct access to RBI support and cannot borrow from RBI like scheduled banks. Their operations are limited to smaller areas, and they usually serve a small number of customers.

2.3 Difference between Scheduled and Non-scheduled Banks :

Basis of Difference	Scheduled Banks	Non-Scheduled Banks
Meaning	Scheduled banks are those banks that have been included in the Second Schedule of the Reserve Bank of India (RBI) Act, 1934. Being included in this list means the bank meets certain criteria set by RBI, such as maintaining minimum paid-up capital and reserves.	Non-scheduled banks are those banks that are not included in the Second Schedule of the RBI Act. They do not fulfil the conditions required by RBI for inclusion in the scheduled list.
Legal Status	These banks get official recognition from RBI and enjoy full legal support under the RBI Act, 1934. They follow strict rules and guidelines issued by RBI.	Non-scheduled banks do not get official recognition under the RBI Act. Their operations are governed mostly by their own rules and general banking regulations.
Borrowing Facility from RBI	Scheduled banks are eligible to borrow from RBI, especially for short-term financial needs under various facilities like the Bank Rate, Repo Rate, or Marginal Standing Facility.	Non-scheduled banks cannot borrow directly from the RBI except under very special or emergency circumstances. This limits their liquidity support during financial trouble.
Cash Reserve Requirement (CRR)	These banks must maintain a certain percentage of their deposits as Cash Reserve Ratio (CRR) with the RBI. This improves their financial discipline and stability.	These banks are not required to maintain CRR with the RBI. They maintain reserve amounts based on their internal policies or state laws.

Regulation and Monitoring	Scheduled banks are monitored closely by the RBI, which ensures that they follow strong financial and operational standards. RBI conducts regular inspections and audits.	Non-scheduled banks are not under strict RBI supervision. They are monitored lightly and may not undergo regular inspections, which sometimes affects their credibility.
Stability and Safety	These banks are considered highly safe and stable because they follow strict regulatory norms, maintain CRR, and have access to RBI support.	Non-scheduled banks are less stable because of limited supervision, smaller capital base, and no RBI borrowing facility.
Size and Coverage	Scheduled banks are usually large banks with wide networks across the country. They may have hundreds or thousands of branches in both urban and rural areas.	Non-scheduled banks are typically small banks operating within limited geographical areas like a town, city, or district.
Types of Banks Included	Public sector banks, private sector banks, foreign banks, regional rural banks, and some co-operative banks fall under scheduled banks.	Mostly small local banks or small co-operative banks fall under non-scheduled banks.
Requirement of Paid-Up Capital	They must maintain a minimum amount of paid-up capital and reserves as required by RBI. This strengthens their financial health.	They may not maintain high paid-up capital. Their financial base is often weak and limited.
Participation in Clearing House	Scheduled banks are allowed to become members of the clearing house, which helps in faster cheque settlement and efficient banking transactions.	Non-scheduled banks generally cannot participate in clearing house systems directly and need to depend on scheduled banks for such services.
Public Confidence	Since scheduled banks are recognized and regulated by RBI, people have high trust and confidence in them.	Due to limited regulation and smaller size, these banks have lower public confidence.
Examples	SBI, PNB, HDFC Bank, ICICI Bank, Axis Bank, Bank of Baroda, Canara Bank, Regional Rural Banks.	Small local banks with very low branch networks, small co-operative banks that are not included in the RBI schedule.

2.4 Role of Public Sector Banks vs. Private Sector Banks :

2.4.1 Role of Public Sector Banks (PSBs):

(Banks where the Government owns more than 51% of shares. E.g., SBI, PNB, Bank of Baroda)

1) **Promoting Financial Inclusion:** Public sector banks play a major role in bringing banking services to people in remote and rural areas. They open branches even in places where profit is low but public welfare is important. They help increase banking access for all citizens.

2) **Implementing Government Schemes:** PSBs act as a backbone for implementing government financial programs such as Jan Dhan Yojana, Mudra Loans, PM Kisan, pension schemes, and other social welfare initiatives. They ensure that benefits reach the common people.

3) **Providing Affordable Credit:** PSBs offer loans at reasonable interest rates to farmers, small entrepreneurs, students, and weaker sections of society. Their aim is not just profit but also social development.

4) **Supporting Priority Sector Lending:** They focus on giving loans to priority sectors like agriculture, small businesses, micro industries, education, rural housing, and exports. This helps in balanced economic growth.

5) **Ensuring Economic Stability:** Because they are owned by the government, public sector banks bring stability to the banking system. People trust them more for safety of deposits.

6) **Large Network of Branches:** PSBs have a wide branch network across India, especially in rural and semi-urban areas. This helps them reach a larger population.

7) **Employment Generation:** Public sector banks provide large-scale employment and contribute to skill development through training programs and job opportunities.

2.4.2 Role of Private Sector Banks

(Banks owned by private individuals/companies. E.g., HDFC Bank, ICICI Bank, Axis Bank)

1) **Promoting Innovation and Technology:** Private sector banks focus heavily on modern technology such as mobile banking, internet banking, AI-based services, digital payments, and faster customer service. They play a major role in modernizing the Indian banking system.

2) **Enhancing Customer Service Quality:** These banks emphasize customer satisfaction by offering quick service, personalized banking, 24/7 helplines, and efficient staff. They provide a better service experience compared too many PSBs.

3) **Supporting Corporate and Retail Banking:** Private Banks play a key role in financing large companies, corporates, and high-income individuals. They offer credit cards, personal loans, home loans, and wealth management services.

4) **Promoting Competition in the Banking Sector:** By providing fast and efficient services, private sector banks create healthy competition, forcing public sector banks to improve their quality and technology.

5) **Profit-Driven and Efficient Management:** Private sector banks operate with a strong profit and performance mindset, which leads to better productivity, cost efficiency, and quick decision-making.

6) **Targeting Urban and Semi-Urban Areas:** They focus more on urban and semi-urban customers where there is higher demand for advanced banking services and more potential for profit.

7) **Introduction of New Products and Services:** Private Banks introduce new financial products like digital wallets, instant loans, investment services, and insurance-linked services faster than PSBs.

2.5 Cooperative Credit Institutions :

Co-operative credit institutions are financial organizations that are formed by people who come together to help each other financially. They work on the

principles of co-operation, mutual help, democracy, and no profit-making. Their main aim is to provide credit (loans) to members at low interest rates and promote savings in rural and semi-urban areas.

These institutions are very important for farmers, small traders, artisans, and low-income groups who may not get loans easily from commercial banks.

2.5.1 Key Features of Co-operative Credit Institutions

- Member-Owned and Member-Controlled: These institutions are owned by members who use their services. There are no big shareholders. Each member has equal voting rights, regardless of how much money they contribute.
- Not Profit-Oriented: Their main goal is to help members financially, not make profits. Any profit earned is either kept as reserves or returned to members as bonus/share.
- Provide Low-Interest Loans: They offer loans at reasonable interest rates, especially for agriculture, small industries, and rural households.
- Promote Savings and Credit: They encourage people to save regularly and develop financial discipline. When members deposit money, the institution can lend it to other members.
- Strong Presence in Rural Areas: Most co-operative credit institutions operate in villages and small towns, where commercial banks do not have many branches.
- Government Support: The government and RBI support these institutions through refinancing and regulations to strengthen the rural credit system.

2.5.2 Structure of Co-operative Credit Institutions in India

The co-operative credit system in India works at three levels:

I. Primary Agricultural Credit Societies (PACS)

Level: Village level

Role:

- They are the smallest units in rural credit structure.
- Provide short-term and medium-term loans to farmers for seeds, fertilizers, tools, and other agricultural needs.

- Members deposit money regularly through small savings.

Importance: PACS are closest to rural people and make credit available easily without complicated procedures.

II. District Central Co-operative Banks (DCCBs)

Level: District level

Role:

- They act as a link between PACS and State Co-operative Banks.
- They provide funds to PACS in their district.
- They also accept deposits and provide loans to individuals and co-operative societies.

Importance: They ensure that small village societies (PACS) get enough funds for lending.

III. State Co-operative Banks (SCBs)

Level: State level

Role:

- Apex (top-level) banks for the co-operative credit system in the state.
- Provide funds to DCCBs.
- Manage government schemes for rural credit.
- Coordinate and supervise DCCBs and PACS.

Importance: SCBs ensure financial stability and proper functioning of the entire co-operative credit structure in the state.

2.5.3 Types of Co-operative Credit Institutions

1. Short-Term Co-operative Credit Institutions: These provide short-term and medium-term loans (up to 5 years), which includes PACS, DCCBs and SCBs.
2. Long-Term Co-operative Credit Institutions: These provide long-term loans for land development, irrigation, equipment, and agricultural projects, which includes State Co-operative Agriculture and Rural Development Banks (SCARDBs), Primary Co-operative Agriculture and Rural Development Banks (PCARDBs).

2.6 Regional Rural Banks and Local Area Banks :

2.6.1 Regional Rural Banks (RRBs)

Meaning: Regional Rural Banks are government-owned financial institutions created to provide banking services in rural and semi-rural areas. They mainly support agriculture, small farmers, rural artisans, and small businesses.

Key Features of Regional Rural Banks (RRBs):

1. **Established under a special Act (RRB Act, 1976):** RRBs were created by the Government of India through the Regional Rural Banks Act, 1976. The main purpose was to provide banking services to rural areas where traditional commercial banks could not reach easily.

2. **Joint ownership by three authorities:** The ownership structure of RRBs is unique-Central Government holds 50% share, State Government holds 15%, and the remaining 35% is held by a sponsor bank (like SBI, PNB, or Bank of Baroda). This joint ownership ensures strong support and supervision.

3. **Main focus on rural and agricultural development:** The primary aim of RRBs is to support rural development. They provide loans for agriculture, allied activities like dairy and poultry, small-scale industries, and local artisans. Their goal is to uplift the rural economy.

4. **Serve weaker sections of society:** RRBs mainly lend money to small farmers, agricultural labourers, rural women, artisans, and small entrepreneurs. These groups often do not get loans easily from big commercial banks, so RRBs fill that gap.

5. **Low-cost banking services:** RRBs offer very simple and low-cost banking facilities. Their interest rates, service fees, and loan processing charges are low so that rural people can easily afford banking services.

6. **Limited geographical area of operation:** Every RRB works only within a specific area, usually 1-3 districts. This helps them understand local needs better and provide customized banking solutions for rural communities.

7. **Support from sponsor banks:** Sponsor banks help RRBs by providing training, management guidance, technological assistance, and financial support whenever required. This ensures that RRBs operate efficiently and professionally.

8. **Priority sector lending focus:** A major portion of RRB loans go to the priority sector agriculture, small businesses, rural housing, and education. This supports overall rural development.

Examples of RRBs: Baroda UP Bank, Karnataka Gramin Bank, Andhra Pragathi Grameena Bank

2.6.2 Local Area Banks (LABs)

Meaning: Local Area Banks are small, privately-owned banks that operate in a very limited geographical area usually 3 contiguous districts. They were introduced by RBI in 1996 to strengthen the rural banking sector and promote local savings.

Key Features of Local Area Banks (LABs):

1. **Privately owned small banks:** Local Area Banks are owned and operated by private individuals, companies, or local entrepreneurs. They are not government-owned, which gives them flexibility in operations.

2. **Very limited area of operation:** LABs work only within three contiguous (neighboring) districts. This limited area helps them understand local needs deeply and provide personalized banking services.

3. **Focus on rural and semi-urban customers:** The main objective of LABs is to offer banking services to people in rural and semi-urban areas where big banks may not be present. They target small farmers, traders, artisans, and local businesses.

4. **Provide basic banking and credit services:** LABs perform all basic banking functions like accepting deposits, providing loans, issuing drafts, and offering savings and fixed deposit accounts. Their services are simple and customer-friendly.

5. **Designed to promote local savings:** LABs encourage people in local areas to save money and deposit it in the bank. This helps generate funds that can be used for developing the local economy.

6. Low capital requirement: Compared to commercial banks, LABs require much lower minimum capital for starting operations. This allows small entrepreneurs to enter the banking sector in under-served areas.
7. Efficient management due to small size: Because LABs work in a small region and serve fewer customers than large banks, they can manage operations more efficiently and respond quickly to local needs.
8. Support to local businesses and small borrowers: LABs understand the local market better, so they provide loans to small shops, small manufacturers, cottage industries, and self-employed individuals. This helps in the economic growth of the region.

Examples of LABs (Only a few were operational): Krishna Bhima Samruddhi Local Area Bank, Coastal Local Area Bank

2.7 Foreign Banks in India :

Meaning: Foreign banks are banks that are incorporated (registered) in a foreign country but operate their branches in India. Their head offices are located outside India, while their branches function inside India under the guidelines of the Reserve Bank of India (RBI). These banks bring international banking practices, advanced technology, and global financial services to the Indian market.

Features of Foreign Banks in India

1. **Head Office Located Abroad:** The main feature of foreign banks is that their head office is in another country. This means major decisions, policies, and strategies are controlled by their foreign parent bank. The Indian branches follow both RBI regulations and the rules of their home country.
2. **Operate through Branches and Representative Offices:** Foreign banks do not have a nationwide network like Indian banks. Instead, they operate through a limited number of branches, mostly in big cities such as Mumbai, Delhi, Chennai, and Bengaluru. Some banks also have representative offices instead of full-service branches.
3. **Focus on Corporate and High-Net-Worth Customers:** Foreign banks mainly serve large companies, multinational corporations, export-

import businesses, and high-income customers. They specialize in services like foreign exchange, trade finance, international money transfers, and investment banking.

4. **Advanced Technology and Modern Banking Services:** Foreign banks bring advanced technology, digital processes, and international standards to the Indian banking sector. They were early adopters of ATMs, internet banking, mobile banking, and modern risk management systems.

5. **Strict RBI Regulation and Reporting:** Although their head office is abroad, foreign banks must strictly follow all RBI rules regarding capital, priority sector lending, transparency, and branch licensing. RBI closely monitors them to ensure stability and compliance.

6. **Limited Participation in Rural Areas:** Foreign banks operate mostly in metros and big cities. They do not open branches in rural areas because their business model focuses on corporate clients and high-value transactions. This limits their contribution to rural development.

7. **Important Role in Foreign Exchange and International Trade:** Foreign banks are experts in foreign exchange services. They help Indian businesses with import/export transactions, currency payments, international remittances, global investment opportunities. They integrate India with the global financial system.

8. **High Customer Service Standards:** Foreign banks are known for efficient service, personalized banking, and high professionalism. Their staff is highly trained, and their branches are usually well-equipped with modern facilities.

Examples of Foreign Banks in India: Citibank (USA), HSBC (UK), Standard Chartered Bank (UK), Deutsche Bank (Germany), Barclays Bank (UK), JPMorgan Chase Bank (USA), DBS Bank (Singapore).

Exercise :

Q.1 Answer the following questions in detail:

1. Explain the structure of the banking system in India with the help of a neat diagram.

2. Explain the role of Public Sector Banks (PSBs) and Private Sector Banks in the Indian banking system.

3. Explain the difference between Scheduled Banks and Non-Scheduled Banks in detail.
4. Describe the meaning and features of Regional Rural Banks (RRBs).
5. What is Local Area Banks (LABs)? Explain its features.
6. Discuss the concept and features of Foreign Banks in India.
7. Write a detailed note on co-operative credit institutions.

Q.2 Answer the following question in short:

1. Define Scheduled Banks.
2. What are Non-Scheduled Banks?
3. Give two examples of foreign banks in India.
4. Discuss the structure of co-operative credit institutions.
5. State the types of co-operative credit institutions.

Q.3 Multiple Choice Questions (MCQS)

1. Which Act governs the Scheduled Banks in India?

   a) Banking Regulation Act b) RBI Act, 1934

   c) Companies Act d) RRB Act

   Answer: b) RBI Act, 1934

2. Public Sector Banks are owned mainly by:

   a) Private individuals b) Foreign companies

   c) Central and State Government d) NGOs

   Answer: c) Central and State Government

3. Which of the following banks operates only in 3 districts?

   a) Public Banks b) Private Banks

   c) Co-operative Banks d) Local Area Banks

   Answer: d) Local Area Banks

4. Head offices of foreign banks are located:

   a) Abroad b) In India

   c) Rural areas d) District offices

   Answer: a) Abroad

5. Sponsor banks support which banks?

   a) Commercial banks b) RRBs

   c) Private banks d) Foreign banks

   Answer: b) RRBs

6. Co-operative banks mainly serve:

   a) Government employees b) Industrial workers

   c) Farmers and rural people d) Lawyers and teachers

   Answer: c) Farmers and rural people

7. Which is a feature of RRBs?

   a) Operate only in limited districts b) Large international network

   c) Owned by foreign investors d) No focus on agriculture

   Answer: a) Operate only in limited districts

8. Which bank category includes SBI?

   a) Private bank b) Foreign bank

   c) Public sector bank d) Co-operative bank

   Answer: c) Public sector bank

9. Foreign banks mainly focus on:

   a) Rural development b) Agricultural loans

   c) Self-help groups d) Corporate clients

   Answer: d) Corporate clients

10. Non-scheduled banks are not listed under:

    a) RBI Act Schedule II b) Banking Regulation Act

    c) Companies Act d) Rural Credit Act

    Answer: a) RBI Act Schedule II

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Unit - 3
Role of Reserve Bank of India

3.1 Introduction

3.2 Bankground

3.3 Organization structure

Exercise

3.1 Introduction:

The Reserve bank of India plays an important role for regulating controlling and managing the operation of banking business in India. Hence Reserve bank is central or apex authority of India responsible for Controlling regulating monitoring and supervising the banking business in India. It is responsible for determining control of flow of curreney in the country through monetary policy.

3.2 Bankground :

In India many banks were established and omitted in the banking sector during colonial period due to lack of confidence of the public. In fact, during the colonial period Banking business were limited to certain category of persons only. Hence there was need to established a central bank in India so that general depositor must have confidence in the banking system. Accordingly, Hilton young committee was formed in 1926. This committee gave recommendation to established a central bank in India. Hence RBI act 1934 was passed to establish the reserve bank of India. Finally on 1st April 1935 RBI was established. After independence on 1st January 1949, it was nationalized to make it more accountable and responsible for economic development and stability in money market.

3.3 Organization structure :

RBI is managed by the Board of director composed of 1 Governor 4 Deputy Governors and 15 of non-official directors in which 4 represents local boards situated at Delhi, Mumbai, Kolkata and Chennai and 10 directors from various segments of economy and one representative of the central government. There Shall be at least six meetings of the Board of Directors held each year, with a minimum of one Meeting Conducted in every quarted.

There are the following committee in the RBI :-

(i) Committee on central board :- It monitors the day to day business of the RBI and generally meet once in a week.

(ii) Board of financial supervision :- It monitors and supervises the working of commercial banks, NBFC, development financial institutions, urban co-operative banks and primary dealers.

(ii) Bords of Payment and settlement :- It supervises and regulates the payment and settlement mechanism of the bank.

(iv) Sub Committee of the Central board :- It deals with inspection and audit and manpower requirement of the bank.

There are the many departments of the RBI which can be classified into 5 sub division as market, research, regulation supervision & financial stability, Services and support. Some of the important departments are as follows:

(i) Monetary policy department : it decides the monetary policy of the country and fixes Repo rate reverse repo rate bank rate etc.

(ii) Department of currency management :- It is responsible for issue and mange currency in the Indian market.

(iii) Foreign exchange department :- It is responsible for managing the foreign currency transactions.

(iv) Department of economic research and policy department

(v) Department of regulation

Functions of RBI :- There are following functions of RBI :-

(i) Regulatory function

(ii) Monetary function

(iii) Issuer of the currency

(iv) Bankers and debt management for the government

(v) Bankers to the bank

(vi) Management of foreign currency

(vii) Regulatory of the payment and settlement system

(viii) Maintaining financial stability

(ix) Development role

(x) Other support services to protect the depositor and investors

(I) Regulatory function :- RBI acts as regulator of the whole banking system of India. It maintains control over the commercial banks, Development banks RRB co-operative bank and even NBFC. The main objective of the control is to protect the interest on the investors by ensuring by various prudential norms. Hence it ensures financial stability in the Indian banking system through preventive and corrective measures. It controls Commercial banks and all-India developmnent financial institutions, RRB, co-operative banks and NBFC. There are the various methods through which banks are regulated by the RBI which are as follows: -

(i) Granting of license : RBI grants license to all banks after verifying the eligibility and compliance. Hence it is the principal authority for approving any banking business in India.

(ii) Maintaining the statutory and liquidity reserve ration : RBI prescribes the minimum limit to ensure the minimum balance with the bank to ensure solvency risk. Statuary reserve is the minimum reserve that bank keeps in the form of government security or other liquid instruments its banks. Presently it is 18% of net time and demand deposit. Cash reserve ratio is the minimum cash balance that is kept with the RBI in the form of cash. Presently it is 3.75% of net time and demand liability.

(ii) Monitoring the operational function of the banks :- Every bank has to submit frequent return to the RBI through which ensures the operational efficiency. It includes daily, fortnightly, monthly and on annual basis return for CRR, SLR, Basel and BSR details etc.

(iv) Inspection:- RBI ensures inspection of commercial banks as per the requirement to reduce the chances of any irregularity. As per section 35 of the banking regulation act 1949 RBI can conduct inspection of any bank. As per section 45N of RBI Act 1934 it can conduct inspection for NBFC also. The main object of the inspection is to ensure financial soundness and compliances, management efficiency and risk management.

(v) Appointment of managerial person :- It also Controls and supervises the appointment of'managerial person in the banking sector. As per the various provision of Banking regulation act RBI have control over the composition of board of director appointment and removal of managing director, chief executive officer, and other managerial persons.

II. Monetary function of the RBI :- RBI is the monetary authority of India. Hence it controls and regulates the flow of currency in the country. There are following monetary instruments of monetary control :-

(i) **Repo rate :-** It is the rate at which central bank provide loan to the commercial bank. Hence it provides the credit to the commercial bank on the basis of government security. In other word it is rate at which central bank discount the first bill of discount. It is used to control the flow of currency in the Indian market.

Effect: if there is increase in repo rate by the reserve bank of India then borrowing will be costlier for the Commercial banks. Hence there will be reduction in the inflation rate. In other way if there is a decrease in the repo rate then commercial bank can borrow from the central bank at lower rate and in turn it will provide the loan to general public at lower rate. Hence there will be more flow of money in the market.

(i) **Reverse repo rate :-** It is the rate at which commercial bank provides the loan to the reserve bank of India on the basis of government security generally in the form of treasury bills. Hence it is just reverse flow of credit from the banks to the central bank of the country. When there is surplus fund with the commercial bank, they generally used to park it with the central bank to get the interest. In this manner they earn the interest on the idle form.

Effect : If reverse repo rate is increased then commercial banks will prefer to park the fund with central bank as it will provide risk free return. Hence there will be restriction of flow of credit in the market the inflation will be reduced. However, in case it reduces there will be increase in the flow of credit in the market.

(iii) **Open Market operation :-** Under this mechanism central bank sell and purchase of government security to control the credit in the market. In case it sells the security then there will be flow of currency from commercial bank to the central bank and inflation will be controlled. However, in case of purchase of government security reverse trends will be obtained.

(iv) **Marginal standing facility :-** It is facility under which RBI provides additional loan facility up to their 1% of net demand and time liability besides repo rate facility.

(v) **Bank rate :-** It is the rate at which central bank ready to buy or discount the bill of exchange or other commercial papers.

Impact of monetary policy on Indian economy :- Monetary policy of the country plays an important role in the development of the country. There are following importance of monetary policy :-

(i) Price stability :- Monetary policy regulates daily inflation and deflation of prices. Income and wealth inequalities are eliminated through a favourable financial policy. The primary aim of monetary policy is to achieve price stability. From a business perspective, interest rates are crucial for facilitating financial transactions between borrowers and lenders. Hence price stability is maintained by the Reserve Bank of India through various tools.

(ii) Economic growth :- Monetary policy is inherently focused on economic growth, as the stability of income and prices fosters economic development. Monetary policy ensures economic stability, hence fostering human welfare and the advancement of many societal activities.

(iii) Fiscal stability :- Monetary policy ensures fiscal stability in the market. Monetary policy fosters the growth of small and medium firms and ensure fiscal stability.

(iv) Balance of payments :- The balance of payments, has aimed for equilibrium in the supply and demand of resources. The monetary policy upholds an equitable payment system to ensure that financial transactions are completed safely and accurately.

(v) Increase in the Employment opportunity :- Monetary policy fosters employability within a country, preserves price stability, and has the potential to stimulate all commercial activity while attempting to narrow the gap between lenders and borrowers in financial markets.

(III) Issuer of currency : RBI is the sole authority to issue the currency of all denonmination to ensure availability of currency in the Indian market. Hence central bank is responsible for design production and management of currency in India. To ensure the adequate supply of notes in India RBI manage and operates four printing presses which print notes (i) Dewas in Madhya Pradesh (i) Nasik in Maharashtra, (ii) Mysore in Karnataka (iv) Salboni in West Bengal. The printing press of Dewas and Nasik are owned by the Security Printing and Minting Corporation of India (SPMCIL), a wholly owned company of the Government of India. Other two printing press mysore and salboni are owned by Bhartiya Reserve Bank Note Mudran Private Limited (BRBNMPL), which is wholly owned subsidiary of RBI.

Presently there are more than 4000 currency storage facilities at the selected branches of the commercial banks in India which is also known as currency chests. These currency chests ensure adequate supply of currency as per the requirement in Indian market.

(IV) Performing banking functions for the government :- RBI acts as a banker to the government and perform all banking function. As a banker to the government, it maintains the government account and makes entry for receipt and payment. There are the following functions of RBI as a banker to the governnent :-

(i) Undertaking banking transactions for the central and state governments to facilitate receipts and payments and maintaining their accounts.

(ii) Managing the governments' domestic debt with the objective of raising the required amount of public debt in a cost-effective and timely manner.

(iii) Manage and develop the market for government securities to ensure that the government to raise debt at a reasonable cost, provide benchmarks for raising resources by other entities and facilitate transmission of monetary policy actions. Hence RBI calculates the net position of the government account daily basis and in case of negative balance it provides short term loan which is also known as way and means advances.

(v) Acting as banker for all other banks :- RBI acts as banker to the all-commercial banks. Like individual banks need their own mechanism to transfer funds and settle inter-bank transactions; such as borrowing from and lending to other banks and customer transactions. Accordingly, all banks operating in the country have accounts with the Reserve Bank, just as individuals and businesses have accounts with their banks. There are the following function of RBI as the banker to banks.

(i) RBI enables smooth, swift and seamless clearing and settlement of inter-bank obligations. Providing an efficient means of funds transfer for banks.

(ii) It ensures that all banks to maintain their accounts with RBI for purpose of statutory reserve requirements and maintain transaction balances.

(iii) Acting as lender of the last resort :- In case of shortage of fund only RBI can assist the commercial banks that is why it is known as lender of the last resort.

(VI) Management of foreign currency :- The Reserve Bank is a major player in the regulation control and management of the foreign exchange market. It has three primary responsibilities: regulating transactions with the external sector, fostering the development of the foreign exchange market, and ensuring orderly conditions and seamless operations in the domestic foreign exchange market. It grants licenses to banks and other specific organizations to operate as Authorized Dealers in foreign exchange, and oversees the administration of the Foreign Exchange Management Act of 1999, The Foreign Exchange Department (FED) of RBI is responsible for foreign currency management. To reduce volatility during times of excess supply or demand for foreign currency, the RBI's Financial Markets Department (FMD) engages in the foreign exchange market by engaging in foreign currency purchases and sales. The Reserve bank adheres to three principles for investing its foreign return, liquidity, and security. Since 1994, when current account convertibility was attained, capital account management has become the primary focus.

(VII) Regulation and management of payment and settlement system :- RBI is the authority for payment and settlement among all banks. Payment and settlement systems are essential for enhancing overall economic efficiency in the Indian market. They encompass currency, tangible instruments such as cheques, and various electronic channels, among other mechanisms utilized for the regular transfer of funds. The Reserve Bank holds supervisory authority over the country's payment and settlement systems, including the capacity to regulate and oversee them, as mandated by the Payment and Settlement Systems Act of 2007. The primary tasks of the RBI in this position include the establishment and management of secure, safe, and efficient payment and settlement systems. Authorization from the RBI is mandatory for initiating or operating a payment system. If an individual contravenes any requirements of the Payment and Settlement Systems Act, the RBI may remove their authorization. Settlement of payment and transfer through NEFT/RTGS is directly monitor and controlled by the RBI.

(VIII) Maintaining Financial Stability :- financial stability is the key challenges due to the present scenario of reoccurrence of global crisis. Central banks have a critical role to play in achieving this objective. Reserve Bank set up a dedicated Financial Stability Unit mainly to, put in place a system of continuous monitoring of the macro financial system. The major function of this unit are as follows :-

(i) **Conduct of macro-prudential surveillance** of the financial system on an ongoing basis

(ii) **Developing models for assessing financial stability** in going forward Preparation of half yearly financial stability reports.

(iii) **Development of a database of key variables** which could impact financial stability, in co- ordination with the supervisory wings of the Reserve Bank

(iv) **Development of a time series of a core set of financial indicators** and Conduct of systemic stress tests to assess resilience.

(IX) Development role :- RBI is also performing development role to build the financial infrastructure providing access to financial services. There are the following ways through which development role of RBI is being performed :-

(i) **Establishments of Deposit Insurance and Credit Guarantee Corporation (1962),** it is established to provide protection to bank depositors and guarantee cover to credit facilities extended to certain categories of small borrowers.

(ii) **Unit Trust of India (1964), the first mutual fund of the country** to promote the small saving Industrial Development Bank of India (1964), a development finance institution promoted by RBI.

(ii) **National Bank for Agriculture and Rural Development (1982)** established for promoting rural and agricultural credit.

(iv) **Discount and Finance House of India (1988),** a money market intermediary, and a primary dealer in government securities

(v) **National Housing Bank (1989),** an apex financial institution for promoting and regulating housing finance

(vi) **Securities and Trading Corporation of India (1994),** a primary dealer deals with government security.

(x) **Miscellaneous services for depositors and investors :-** RBI promotes depositors and investors education along with awareness for fraud etc. It receives the complaint from the depositors through banking ombudsman. Hence there is control mechanism for customer services through ombudsman mechanism.

Exercise:

Q.1 Multiple Choice Questions (MCQS)

1. In Which year the Reserve Bank of India (RBI) was established.

   (a) 1930 (b) 1934 (c) 1935 (d) 1947

   Answer : c) 1935

2. The primary function of the RBI is to–

   (a) Control imports and exports

   (b) Act as the banker to the government and banks

   (c) Collect direct taxes

   (d) Manage public sector enterprises

   Answer : b) Act as the banker to the government and banks

3. Which of the following is NOT a function of the Reserve Bank of India?

   (a) Issuing of currency notes

   (b) Acting as custodian of foreign exchange

   (c) Controlling fiscal policy

   (d) Controlling credit and money supply

   Answer : c) Controlling fiscal policy

4. The RBI regulates credit in the economy through

   (a) Monetary policy tools (b) Fiscal policy

   (c) Trade policy (d) Industrial policy

   Answer : a) Monetary policy tools

5. The Monetary Policy Committee (MPC) is responsible for

   (a) Fixing fiscal deficit

   (b) Deciding repo rate

   (c) Controlling inflation through tax policy

   (d) Managing bank mergers

   Answer : b) Deciding repo rate

6. Under Which Section of te RBI Act, 1934, the Reserve Bank of India is the issuer of currency ?

   (a) Section 17 (b) Section 22 (c) Section 45 (d) Section 21

   Answer : b) Section 22

7. The Bank Rate policy of RBI is primarily used to

   (a) Manage foreign exchange reserves

   (b) Control inflation and liquidity

   (c) Regulate export duties

   (d) Promote tourismn enoioun eo

   Answer : b) Control inflation and liquidity

8. Which department of the RBI manages foreign exchange under FEMA, 1999?

   (a) Issue Department

   (b) Department of Economic Policy and Research

   (c) Department of Exchange Management

   (d) Foreign Exchange Department

   Answer : d) Foreign Exchange Department

9. The RBI acts as a lender of last resort for-

   (a) Government only (b) Commercial banks

   (c) Cooperative societies (d) Insurance companies

   Answer : b) Commercial banks

10. Which of the following statements about the RBI is true?

    (a) RBI isa private bank

    (b) RBI directly gives loans to individuals

    (c) RBI manages monetary policy of India

    (d) RBI collects direct taxes

    Answer: c) RBI manages monetary policy of India

Q.2 Short Answer Questions :

1. What are the main functions of the Reserve Bank of India?
2. Explain the role of RBI in controlling credit in the economy.
3. What is the significance of the Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR)?
4. Describe the role of RBI as a issuer of currency.
5. What is the function of the Monetary Policy Commitee (MPC) under RBI?

Q.3 Long Answer Questions :

1. Discuss in detail the various functions of the Reserve Bank of India in regulating and supervising the banking sector.
2. Explain the monetary policy tools used by the RBI to control money supply and maintain price stability in India.
3. Describe the role of the RBI in maintaining financial stability and promoting economic growth in India.
4. Discuss the role of the RBI in the management of foreign exchange and external sector.
5. Examine in details the functions of the RBI as a banker to the government.

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Unit - 4
Deposits in Bank

4.1 Introduction

4.2 Need for Bank Deposit

4.3 Fixed Deposit Account (Term Deposit Account)

4.4 Recurring Deposit Account (Rd)

4.5 Savings Deposit Account

4.6 KYC Norms (Know Your Customer)

4.7 Advantages Of Different Deposit Schemes

4.8 Passbook

4.9 Cheque Book

4.10 Digital Passbook

4.11 Nomination Facility In Banks

Exercise

4.1 Introduction:

The two main functions of a banker are borrowing and lending. It is difficult nowadays to find any large scale business which is carried on only with a proprietor's investments. But in the case of banking business, borrowing is much more important and relevant because a banker deals in money. The major part of the profits of a bank is earned by the use of funds borrowed from the general public or, in other words, deposited by the general public with the bank. This is the reason why we find that, in the case of the capital structure of banks, the percentage of deposits is much higher than that of the paid-up capital. The major parts of the resource of a bank are, therefore, in the form of deposits accepted from the general public. To attract such deposits, banks offer different types of facilities and privileges to members of the public in different walks of life, engaged in numerous economic activities and having a different financial status.

In India, banks generally accept deposits in four types of accounts, namely:

1. Fixed Deposit Accounts
2. Savings Deposit Accounts
3. Recurring Deposit Accounts/Cumulative Deposit Accounts
4. Current Deposit Accounts

4.2 Need For Bank Deposit :

Bank deposits are amounts of money placed by individuals, businesses, or organizations into a bank account for safekeeping, earning interest, and facilitating financial transactions. Depositing money in a bank is not just a safe way to store funds it serves multiple purposes that are essential for both personal finance and the economy. Bank deposits are essential for financial security, convenience, wealth growth, disciplined saving, liquidity, access to credit, economic contribution, and legal documentation. They form the backbone of both personal finance and the banking system, ensuring that money is safe, productive, and accessible whenever needed.

1. Safety of Money

Keeping money at home or carrying large sums is risky due to theft, fire, or loss. Banks provide a secure environment where deposited funds are protected. Additionally, in many countries, deposits are insured up to a certain limit, giving depositors peace of mind that their money is safe even if the bank faces issues.

2. Convenience in Transactions

Depositing money in a bank allows easy and efficient transactions. With a bank account, individuals can withdraw money using ATMs, write cheques, make online transfers, and pay bills digitally. This convenience eliminates the need to carry cash for every transaction and streamlines day-to-day financial activities.

3. Earning Interest

One of the key benefits of bank deposits is that they earn interest. Savings accounts, fixed deposits (FDs), and recurring deposits (RDS) provide regular returns on deposited money. This not only helps maintain the value of money against inflation but also allows wealth to grow steadily over time.

4. Financial Discipline

Bank deposits encourage regular saving habits, particularly through schemes like recurring deposits. By depositing a fixed amount at regular intervals, individuals learn to manage their finances better, prioritize savings, and plan for future financial goals.

5. Liquidity and Flexibility

Many bank accounts allow depositors to withdraw money whenever needed, providing liquidity. Even in fixed deposits, banks often permit premature withdrawals (sometimes with a small penalty), giving a balance between earning interest and accessing funds in"emergencies.

6. Access to Loans and Credit

Deposits can be pledged as collateral to secure loans, overdraft facilities, or credit cards. This allows depositors to borrow at lower interest rates compared to unsecured loans, making bank deposits a gateway to financial leverage and support in times of need.

7. Supporting Economic Growth

Deposited funds are not idle; banks use these deposits to provide loans and advances to businesses, industries, and individuals. This lending stimulates trade, investment, and entrepreneurship, which in turn drives economic growth and development.

8. Legal Proof of Funds

Bank deposits serve as official documentation of money held. This is useful for taxation, financial audits, loan applications, and legal verification. Having funds in a bank creates transparency and legitimacy, which cash holdings cannot provide.

4.3 Fixed Deposit Account (Term Deposit Account) :

A Fixed Deposit (FD), also known as a Term Deposit, is an account in which the depositor agrees to keep a specified sum with the bank for a predetermined period-generally ranging from 7 days to 10 years, as per current RBI guidelines. The depositor is not permitted to withdraw the funds before maturity without incurring a penalty. The fixed tenure allows the bank to utilize the funds efficiently, often investing them in long-term, interest-carning assets.

Legal Position

In the case of a fixed deposit, the banker's position is that of a debtor, and the depositor is a creditor. The banker is legally bound to repay the deposit only on or after the maturity date. Even after the maturity period, if the depositor does not withdraw the amount, the banker continues to be a debtor until repayment.

Transferability

Upon deposit, the bank issues a Fixed Deposit Receipt (FDR), which serves as proof of the deposit. The FDR is non-transferable and non-negotiable, meaning it cannot be endorsed or transferred like a cheque or bill of exchange.

Loss of Deposit Receipt

If an FDR is lost, banks may issue a duplicate receipt after obtaining an indemnity bond from the depositor, indemnifying the bank against potential claims.

Deposits in Joint Names

When fixed deposits are opened jointly, the payment terms (either or survivor, “former or survivor", or "jointly") are determnined at the time of opening. In the event of the death of one depositor, the proceeds are payable to the surviving depositor(s) according to the mandate provided, unless a legal restraint exists.

Interest on Fixed Deposits

The rate of interest on FDs is governed by RBI's deregulated interest rate framework, allowing banks to set their own rates based on tenure and liquidity conditions.

- Interest may be paid monthly, quarterly, half-yearly, annually, or at maturity.
- Banks offer higher interest rates on longer tenures and to senior citizens (generally 0.50% higher).
- Tax Deducted at Source (TDS) applies if annual interest exceeds the prescribed limit under Section 194A of the Income Tax Act, 1961.
- Loan against Fixed Deposit

- Banks may grant loans or overdrafts up to 90% of the FD amount at interest rates generally 1-2% higher than the FD interest rate. The FDR serves as security, and interest on the FD continues to accrue during the loan period.

Premature Withdrawal

Premature withdrawal is permitted subject to:

- A penalty on the interest rate (generally 0.5% to 1% lower than the rate applicable for the period the deposit actually remained).
- In case of the death of a depositor, no penalty is levied, and payment can be made to the legal heirs or nominees.
- Auto-renewal options are available if opted for by the depositor.

Key Features

- Tenure: 7 days to 10 years
- Interest: Fixed for tenure, compounded periodically
- Premature withdrawal allowed with penalty
- Loan facility up to 90% of FD value
- Auto-renewal and nomination available
- Safe investment option with capital protection

4.4 Recurring Deposit Account (RD):

A Recurring Deposit (RD) account encourages regular savings by allowing customers to deposit a fixed amount every month for a fixed period, usually 6 months to 10 years. It is suitable for individuals with regular incomes who wish to build a lump sum over time.

Operational Guidelines

The customer agrees to deposit a fixed sum monthly. On maturity, the depositor receives the principal amount plus compound interest, similar to a fixed deposit. RDs can be opened individually, jointly, or in the name of a minor (through a guardian).

Interest on RD

- Interest rates are aligned with corresponding term deposit rates of the same maturity.

- Compounding is usually quarterly, and the interest is credited at maturity.
- Delays in monthly installments may attract a nominal penalty as per bank policy.
- Premature Closure"Permitted with reduced interest similar to premature withdrawal of a fixed deposit.
- Transferability
- Recurring deposit accounts can be transferred between branches of the same bank without charge.

Key Features

- Monthly fixed deposits for a fixed tenure
- Interest compounded quarterly, payable at maturity
- Suitable for salaried and small savers
- Premature withdrawal with penalty allowed
- Can be used as security for loans
- Available for minors and joint holders

4.5 Savings Deposit Account :

A Savings Account is designed to encourage savings among individuals while providing liquidity and modest returns. It allows depositors to deposit and withdraw funds as needed, subject to certain restrictions.

Legal and Operational Aspects

Individuals, jointly held parties, minors (with guardian), and entities as per RBI eligibility can open such accounts. A passbook, cheque book, and debit card are issued to the account holder.

Interest on Savings Account

- As per RBI's 2011 deregulation, banks can determine their own interest rates on savings deposits.
- Interest is now calculated on daily balances and credited quarterly or half-yearly.
- Banks may offer differentiated rates based on the amount in the account.

Restrictions

- There may be a minimum balance requirement, depending on account type (regular, premium, or zero-balance).
- Excessive withdrawals or non-maintenance of minimum balance may attract service charges.
- Interest is not payable on savings accounts of business entities unless permitted under RBI guidelines.

Key Features

- Liquidity with limited transaction restrictions
- Interest calculated daily on end-of-day balance
- Nomination and internet/mobile banking available
- Auto sweep and linked FD options
- Minimum balance or zero-balance variants available
- ATM and online transfer facilities

4.6 Current Deposit Account :

A Current Account (also known as a Demand Deposit Account) is primarily meant for business entities, firms, and professionals that require frequent banking transactions. It allows unlimited deposits and withdrawals, offering high liquidity but generally no interest.

Operational Characteristics

- Customers can deposit and withdraw funds at any time through cheques, online transfers, or other means.
- Banks provide cheque books, pay-in slips, and account statements.
- Most banks impose incidental charges or minimum balance requirements to cover operational costs.
- Interest and Overdrafts
- No interest is paid on current accounts as per RBI norms.
- Banks may extend overdraft facilities to reliable customers based on their relationship and collateral such as fixed deposits.
- Legal Position

- The banker's obligation is to honour all chcques drawn by the customer up to the balance available (or sanctioned overdraft limit). The banker has the right to set-off between the current and other accounts held by the customer in the same bank.

Key Features

- No restriction on deposits or withdrawals
- No interest (except in rare, special cases)
- Overdraft facility available
- Ideal for business and institutional use
- High liquidity and transactional convenience
- Requires maintenance of prescribed minimum balance

4.6 KYC Norms (Know Your Customer) :

Definition of Customer: For KYC purposes, a customer includes:

- Any person or entity maintaining an account or having a business relationship with the bank.
- A person on whose behalf an account is maintained (beneficial owner).
- Beneficiaries of transactions conducted through intermediaries like stock brokers, chartered accountants, etc., as permitted by law.

Key Components of KYC Policy:

- Customer Acceptance Policy
- Customer Identification Procedure
- Monitoring of Transactions & Risk Management

1. Customer Acceptance Policy (CAP)

The Customer Acceptance Policy sets the framework for deciding which customers the bank will accept. It ensures that the bank does not engage with persons or entities that pose excessive risk, while still providing smooth banking services to genuine customers.

Policy Highlights:

- Customers are classified into High, Medium, and Low risk categories based on risk perception.

- Acceptance criteria are determined for each risk category.
- Identity verification is mandatory before opening accounts or establishing relationships.
- Accounts are not opened for anonymous, fictitious, or bernami persons.
- Banks aim to avoid inconveniencing genuine customers while maintaining compliance.

2. Customer Identification Procedure (CIP)

The Customer Identification Procedure ensures that banks know the true identity of each customer. This is critical for maintaining the integrity of the banking system, preventing fraud, and complying with legal requirements.

Procedure Highlights:

- Verification is required while opening an account, during certain transactions, or if doubts arise about the authenticity of previously collected information.
- Information on business activity, income, location, transaction patterns, and financial status may also be collected to complete the customer profile.
- Customers are classified as High, Medium, or Low risk, with periodic reviews.
- Documents Required for Identification

Individuals:

- Proof of identity: Passport, PAN card, Voter ID, Driving License, Bank ID, or letter from a recognized public authority.
- Proof of address: Telephone/Electricity bill, Bank statement, Ration card, or letter from employer/recognized public authority.

Companies:

- Certificate of Incorporation, MOA & AOA
- Board resolution authorizing account opening and signatories
- Power of Attorney (if applicable)
- PAN card and contact details

Partnership Firms:

- Partnership deed and registration certificate (if registered)
- Power of Attorney for authorized partners or employees
- Identity and address proofs of partners"Contact details of the firm

Trusts & Foundations:

- Registration certificate (if registered)
- Power of Attorney authorizing transactions
- Identity of trustees, founders, beneficiaries, and managers
- Resolution of the managing body and contact details

3. Monitoring of Transactions & Risk Management

Monitoring transactions is an ongoing process to detect unusual or suspicious activity in customer accounts. This ensures compliance with the Prevention of Money Laundering Act (PMLA) 2002, protects the bank from financial crime, and manages risks effectively.

Monitoring and Risk Management Highlights:

- Transactions are monitored according to the risk profile of the account.
- Special attention is given to large, complex, or unusual transactions that lack clear economic or lawful purpose.
- Suspicious transactions are reported to the appropriate authorities, and records are maintained as prescribed by law.
- Banks follow a risk-based approach with proper oversight, systems, and internal controls.
- Compliance is evaluated through internal and concurrent audits, and reports are presented to the Audit Commitce of the Board quarterly.

4.7 Advantages of Different Deposit Schemes :

Banks offer a variety of deposit schemes to meet the diverse financial needs of individuals and businesses. Each scheme is designed with specific features, interest benefits, and accessibility options to serve different purposes, such as daily transactions, long-term savings, disciplined investments, or business operations. Understanding the advantages of these schemes helps depositors choose the right type of account to maximize convenience, safety, and financial growth.

Deposit Scheme	Purpose / Ideal For	Key Advantages
Savings Account	Individuals for daily transactions	- Easy access and liquidity - Safe and government -insured deposits - Earns interest on balance - Convenient for salary, payments, and transfers - Higher interest rates than savings
Fixed Deposit (FD)	Individuals sceking higher returns	- Safe and guaranteed principal - Flexible tenure options - Can be used as loan collateral - Predictable returns - Encourages regular monthly savings
Recurring Deposit (RD)	Individuals aiming for disciplined savings	- Assured and fixed returns - Small and affordable monthly deposits - Can be pledged for loans - Helps achieve financial goals - Supports unlimited deposits and withdrawals
Current Account	Businesses and frequent transactors	- Overdraft facility available - Simplifies fund management - Useful for tracking inflow and outflow of funds

4.8 Passbook :

A passbook, also called a bankbook, is a small booklet issued by banks to customers to record"all transactions in their deposit accounts. It provides an up-to-date view of deposits,"withdrawals, and the account balance, helping customers keep track of their finances."Traditionally, passbooks were updated manually by bank staff for accounts with low"transaction volumes, such as savings accounts. Today, electronic printing has replaced"manual entries. Customers can update their passbooks using:

- Passbook printers at bank branches
- Self-service kiosks
- Automated teller machines (ATMS)

This modernization allows quick, accurate updates and reduces errors while maintaining a paper record of transactions.

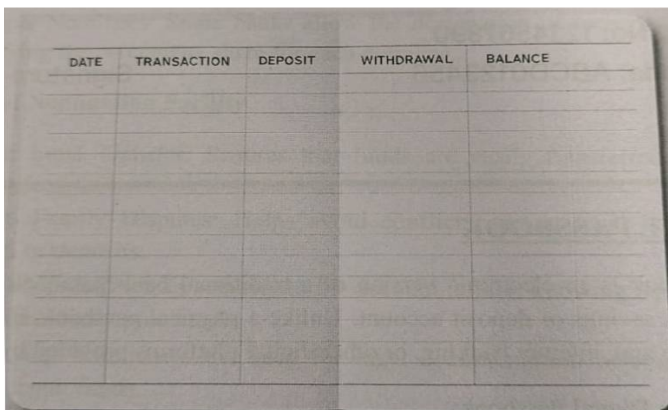
Purpose

- A passbook serves as a personal record of transactions as reflected in the bank's ledger.
- It usually contains the bank's rules, regulations, and terms & conditions applicable to the deposit account.
- Customers are expected to read, understand, and comply with these terms at all times.

Key Features

- Shows all deposits, withdrawals, and balance
- Updated periodically at branches, ATMs, or passbook printers
- Includes bank rules, terms, and conditions
- Serves as proof of account activity

Specimen



4.9 Cheque Book :

The customer is also supplied with a cheque book which normally contains 10 or 20 blank forms. A cheque leaf is used for the purpose of withdrawing money. If the customer does not like to have a cheque book, he can make use of the withdrawal form for withdrawing money. A cheque is the most economical and

safe method of money transaction because the transfer cost is very low and also the possibility of loss is minimum. Cheques are drawn against the funds in the hands of the banker. They act as currency notes in these days of economic civilization.

A cheque is a Bill of Exchange drawn upon a specified banker and payable on demand cheque is a species of a Bill of Exchange; but it has the following two additional qualification:

a. It is always dravwn on a specified banker

b. It is always payable on demand

Specimen

Bank Name & Branch
Cheque No: 123456
Date: 17/10/2025
Pay ______________________
Amount in Words ______________________
______________________ ₹
Amount in Figures ______________________ Amount in Figures
Account Holder: Devang Mehta
Account No: 1234567890
IFSC Code: ABCD0123456
Signature

4.10 Digital Passbook :

A digital passbook is an electronic version of a traditional bank passbook that records all transactions in a savings or deposit account. Unlike a physical passbook, it can be accessed through a mobile app, internet banking, or other digital platforms provided by the bank.

Key Features of a Digital Passbook:

- Transaction Records: Shows all deposits, withdrawals, interest credited, and account balances in real time.
- Accessibility: Can be accessed anytime and anywhere via a smartphone, tablet, or computer.
- Automatic Updates: Transactions are updated automatically, eliminating the need to visit the bank for manual entries.
- Secure: Protected by login credentials, OTPs, or biometric authentication.
- Eco-friendly: Reduces the use of paper, making it environmentally friendly.

- Search & Filter Options: Allows easy filtering of transactions by date, amount, or type.

In short, a digital passbook serves the same purpose as a traditional passbook but offers greater convenience, instant updates, and modern features for easy account management.

4.11 Nomination Facility In Banks :

A nomination facility is a provision offered by banks that allows an account holder or depositor to appoint a nominee a person who will legally receive the funds or benefits from the account in the event of the account holder's death. This facility is applicable to almost all banking products, including savings accounts, fixed deposits (FDs), recurring deposits (RDs), and even locker facilities. The nominee acts as a representative to claim the account balance or deposit amount on behalf of the deceased account holder, ensuring a smooth and hassle- free transfer of funds.

Key Features of Nomination Facility

- Legal Right : Once a nomination is made, the nominee has the legal authority to claim the deposit or account balance after the account holder passes away.
- Simplicity : It simplifies the process for family members, avoiding the need for lengthy legal procedures like succession certificates.
- Flexibility : The account holder can change or cancel the nomination at any time during their lifetime.
- Mandatory in Certain Cases: For some accounts like fixed deposits and ternm deposits, banks often require nomination details to be provided.
- Multiple Nominees: Some banks allow the designation of more than one nominee, specifying the percentage share for each nominee.

Advantages of Nomination Facility

- Smooth Fund Transfer: Ensures that funds are easily transferred to the nominee without delays.
- Reduces Family Disputes: Helps avoid conflicts among legal heirs over account balances or deposits.
- Peace of Mind: Provides security to the account holder, knowing that their loved ones will be financially protected.

- Time-Saving: Eliminates the need for legal documentation or court procedures for claiming bank funds.
- Applicable to All Deposit Types: From savings accounts to term deposits, this facility enhances safety and convenience.

In essence, the nomination facility is a safety and legal mechanism provided by banks to protect the account holders funds and ensure that they reach the right person in a timely and hassle-free manner.

Exercise :

Q.1 Multiple Choice Questions

1. Which of the following is a primary reason for depositing money in banks?

   a) To avoid paying taxes b) Safety and security of funds

   c) To earn rewards points d) To increase cash at home

   Answer: b) Safety and security of funds

2. Bank deposits earn interest, which helps to:

   a) Increase spending habits

   b) Reduce the bank's liabilities

   c) Grow wealth over time and protect against inflation

   d) Avoid taxation

   Answer: c) Grow wealth over time and protect against inflation

3. Depositing money in a bank facilitates:

   a) Easier theft

   b) Convenient financial transactions

   c) Cash hoarding

   d) Avoiding loans

   Answer: b) Convenient financial transactions

4. Which type of bank deposit encourages regular saving habits?

   a) Current account b) Recurring deposit

   c) Demand draft d) Overdraft

   Answer: b) Recurring deposit

5. Bank deposits can be used as collateral to:

   a) Increase interest rates b) Obtain loans or credit facilities

   c) Avoid government scrutiny d) Withdraw cash illegally

   Answer: b) Obtain loans or credit facilities

6. One of the ways bank deposits contribute to the economy is by:

   a) Providing loans and advances to businesses

   b) Reducing bank employees

   c) Printing more money

   d) Encouraging cash hoarding

   Answer: a) Providing loans and advances to businesses

7. Which of the following provides legal proof of funds?

   a) Cash at home b) Bank deposits

   c) Gold ornaments d) Stocks

   Answer: b) Bank deposits

8. Premature withdrawal of fixed deposits provides:

   a) No access to funds

   b) Full penalty with no interest

   c) Limited liquidity with some penalty

   d) Free loan against FD

   Answer: c) Limited liquidity with some penalty

9. Safety of money in banks is ensured because:

   a) Banks have security systems and deposit insurance

   b) Banks print more money

   c) Deposits cannot be withdrawn

   d) Banks charge high fees

   Answer: a) Banks have security systems and deposit insurance

10. Which of the following is NOT a reason for bank deposits?

    a) Financial discipline b) Convenience

    c) Encouraging theft d) Access to loans

    Answer: c) Encouraging theft

Q.2 Fill in the Blanks

1. Depositing money in a bank ensures the___________ of funds.

   Answer: safety

2. Regular deposits in recurring accounts help in developing_______ habits.

   Answer : financial discipline

3. Bank deposits can be used as_________to obtain loans or credit facilities.

   Answer : collateral

4. Deposited funds help banks provide loans, which supports overall_________.

   Answer : economic growth

5. Bank deposits serve as_________documentation of money held.

   Answer : legal

Q.3 True or False

1. Bank deposits provide safety and security against theft and loss. **True**
2. Money kept at home is safer than bank deposits. **False**
3. Fixed deposits and recurring deposits allow depositors to earn interest. **True**
4. Bank deposits do not contribute to economic development. **False**
5. Deposits cannot be used to secure loans from banks. False

Match the Following

Column A	Column B
1. Safety of money	a) Encourages regular savings
2. Recurring deposit	b) Legal documentation of funds
3. Bank deposit as collateral	c) Borrowing facility using deposits
4. Bank deposit record	d) Protection against theft and loss
5 Economic contribution	e) Funds provided to businesses and industry

Answer Key: 1–d, 2–a, 3–c, 4–b, 5–e

Q.4 Write the following short note.

1. Fixed Deposit Account
2. Recurring Deposit Account.
3. Saving Deposit Account.
4. Current Deposit Account.
5. Customer Acceptance policy.
6. Customer Identification procedure.
7. Digital passbook.

Q.5 Wraite the following long questions.

1. Explain the Need for Bank Deposit in detail.
2. Discuss the KYC Norms in detail.
3. Describe the Advantages of Different Deposit Schemes.
4. Write about the pass book & Cheque Book with Specimen.
5. Describe the Nomination Facility in Banks.

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BBA SEMESTER-4

Banking & Insurance

BLOCK: 2

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Unit - 5
Lons and Advances

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5.2 Objectives of Loans and Advances

5.3 Types of Loans

5.4 Consumer Loans and Business Loans

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5.6.3 Weaker Section

5.7 Concept of Interest Rate and EMI

5.8 Difference between Secured and Unsecured Loans

Exercise

5.1 Introduction :

Loans and advances are the most important activities performed by banks and financial institutions. A loan is a fixed amount of money given by a bank to a borrower for a specific purpose and for a definite period, which must be repaid along with interest. An advance is usually a short-term credit facility provided mainly to business firms to meet their working capital needs.

Banks collect deposits from the public and lend these funds in the form of loans and advances. This process helps in the circulation of money, promotes investment, and accelerates economic growth. Loans and advances not only benefit borrowers but also help banks earn income through interest.

Thus, loans and advances play a crucial role in:

- Economic development
- Industrial and agricultural growth

- Trade and commerce
- Improvement in living standards

5.2 Objectives of Loans and Advances

The objectives of providing loans and advances are as follows:

1. **Promotion of Economic Growth**

   By providing credit to agriculture, industries, MSMEs, and services, banks contribute to national income and economic development. It increases the economic growth and development through the disbursement of a larger amount of funds for loans and advances, which creates revolutionary or productive use.

2. **Earning Profit**

   Interest charged on loans is the primary source of income for banks, helping them cover operating costs and earn profits. It's their core business because banks can earn the maximum profits only through the disbursement of more loans to businesses and individuals. Profit is the lifeblood of any business, and loan disbursement is a foundation of the banking industry.

3. **Financial Inclusion**

   Financial inclusion refers to providing banking services to rural people, small traders, and economically weaker sections. Bank loans help these groups become part of the formal financial system. It reduces their dependence on moneylenders who charge high interest. Access to credit improves their income-generating capacity. Overall, it promotes economic equality and financial stability.

4. **Employment Generation**

   Loans provided to industries and MSMEs help businesses expand their operations. Expansion leads to increased production and the establishment of new units. This creates more employment opportunities for skilled and unskilled workers. Small businesses especially generate large-scale employment. Thus, bank credit plays a vital role in job creation.

5. **Balanced Regional Development**

Banks provide loans to backward and rural areas to promote economic development. These loans support agriculture, small industries, and infrastructure projects. The development of such regions reduces migration to cities. It also helps in reducing regional economic disparities.

Balanced growth strengthens the national economy.

6. **Supporting Priority Sectors**

Banks are required by RBI to lend a certain portion of their credit to priority sectors. These sectors include agriculture, MSMEs, education, and the weaker sections. Priority sector lending ensures an adequate flow of credit to important areas of the economy. It supports inclusive growth and social welfare. This policy helps in overall economic development.

7. **Meeting Individual Needs**

Bank loans help individuals meet various personal and social needs. These include education, housing, medical treatment, and emergencies. Loans make it easier to manage large expenses that cannot be paid from savings. They improve living standards and financial security. Personal loans thus play an important role in daily life.

5.3 Types of Loans :

Loans can be classified on the basis of purpose, duration, and security. This classification helps banks design suitable loan products for different needs. It also helps borrowers choose loans according to their requirements. Each type of loan serves a specific economic or personal purpose.

A. Classification Based on Purpose

1. **Personal Loans**

Personal loans are provided to individuals to meet personal expenses such as travel, marriage, medical treatment, or emergencies. These loans are usually unsecured in nature. They are granted based on

income and creditworthiness. The repayment period is generally short to medium term. Interest rates are usually higher than secured loans.

2. Education Loans

Education loans are given to students for higher studies in India or abroad. They cover expenses like tuition fees, books, and accommodation. Repayment usually starts after completion of education or getting a job. These loans help students pursue quality education. They support skill development and career growth. Education loans are given to students for higher studies.

3. Housing Loans

Housing loans are provided for purchasing, constructing, or renovating houses or flats. They are long-term loans with a lower rate of interest. The property itself generally acts as security.

Repayment is made in monthly installments over many years. Housing loans promote home ownership.

4. Vehicle Loans

Vehicle loans are given to purchase two-wheelers or four-wheelers. They can be used for personal or commercial purposes. The vehicle purchased acts as collateral for the loan.

Repayment is made through monthly installments. These loans make vehicle ownership affordable. The vehicle itself acts as security for the loan.

5. Agricultural Loans

Agricultural loans are provided to farmers for crop production and allied activities. They are used for buying seeds, fertilizers, equipment, and irrigation facilities. These loans support agricultural development. They help farmers increase productivity and income. Interest rates are often subsidized.

6. Business Loans

Business loans are provided to businesses for working capital, expansion, or purchase of machinery. They help businesses grow and improve production capacity. Both small and large enterprises avail such loans. Repayment depends on business cash flows. These loans support economic growth.

B. Classification Based on Duration

1. Short-Term Loans

Short-term loans are provided for a period of up to one year. They are mainly used to meet working capital needs. Farmers use them as crop loans. These loans help in managing day-to-day expenses. They are usually repaid quickly.

2. Medium-Term Loans

Medium-term loans are granted for a period of one to five years. They are used for purchasing machinery, tools, and equipment. These loans help businesses and farmers improve efficiency.

Repayment is spread over a few years. Interest rates are moderate.

3. Long-Term Loans

Long-term loans are given for more than five years. They are mainly used for housing, infrastructure, and large projects. These loans involve a large amount of money. Repayment is done over a long period. Interest rates are generally lower.

C. Classification Based on Security

1. Secured Loans

Secured loans are backed by collateral such as property, gold, or machinery. The collateral reduces the risk for banks. Interest rates are usually lower. If the borrower fails to repay, the bank can sell the asset. Examples include housing, and vehicle loans.

2. Unsecured Loans

Unsecured loans are given without any collateral. They are provided based on the borrower's creditworthiness and income. Personal loans and credit card loans are examples. Interest rates are higher due to greater risk. Repayment capacity is carefully evaluated.

5.4 Consumer Loans and Business Loans :

5.4.1 Consumer Loans

Consumer loans are loans provided to individuals for personal consumption and household needs. These loans are not used for business or profit-making activities. They help individuals manage large expenses conveniently. Consumer loans can be either short-term or long-term.

Repayment is usually done in fixed installments.

5.4.1.1 Features and importance

1. Personal and Household Use

Consumer loans are provided to individuals to meet personal and household needs. They are not used for business or profit-making purposes.

2. Fixed Repayment Schedule

These loans are repaid in fixed monthly installments over a specified period. This helps borrowers plan their finances easily.

3. Short-Term or Long-Term

Consumer loans may be short-term or long-term depending on the type of loan. For example, personal loans are short-term, while home loans are long-term.

4. Secured or Unsecured

Some consumer loans require collateral, while others do not. Personal loans are usually unsecured, whereas home loans are secured.

5. **Improves Standard of Living**

Consumer loans help individuals fulfill important needs and enjoy a better lifestyle. They make costly purchases affordable.

6. **Asset Creation**

These loans help in acquiring valuable assets like houses and vehicles. Asset ownership provides long-term financial stability.

7. **Financial Security**

Consumer loans provide support during emergencies such as medical needs. They reduce financial stress on individuals.

5.4.2 Business Loans

Business loans are provided to commercial organizations for profit-oriented activities. These loans help businesses run daily operations and expand. They are mainly used for production, trade, and services. Business loans are usually secured in nature. Repayment depends on business income.

5.4.2.1 Features and Importance

1. **Commercial Purpose:** Business loans are provided for profit-oriented activities. They are used for production, trade, and service operations.

2. **Generally Secured:** Most business loans require collateral, such as machinery or stock. This reduces risk for banks.

3. **Short-Term or Long-Term:** Business loans may be short-term for working capital or long-term for expansion. The duration depends on business needs.

4. **Working Capital Loan:** Working capital loans are used for day-to-day business expenses.

   They help maintain smooth operations.

5. **Term Loan:** Term loans are used for purchasing machinery or expansion. They are repaid over a fixed period.

6. **Cash Credit:** Cash credit allows businesses to withdraw funds as needed. Interest is charged only on the amount used.

7. **Overdraft:** Overdraft facilities allow businesses to withdraw more than their account balance.

   It helps manage short-term cash shortages.

8. **Business Growth:** Business loans help enterprises expand operations and increase capacity.

   They support long-term growth.

9. **Increase in Production:** Loans enable businesses to invest in better machinery and technology. This leads to higher production.

10. **Employment Generation:** Business expansion creates more job opportunities. Thus, business loans help reduce unemployment.

5.5 Provisions regarding Loans and Advances :

- **Proper Assessment of Creditworthiness:** Banks must carefully assess the borrower's income, repayment capacity, and credit history before granting loans. This helps reduce the risk of default.

- **Purpose of Loan:** Loans and advances are sanctioned only for genuine and productive purposes.

  Banks ensure that the funds are used for the approved purpose.

- **Security and Collateral:** Banks may require collateral such as property, gold, or securities to secure loans. This safeguards the bank's interest in case of non-repayment.

- **Margin Requirements:** Borrowers are required to contribute a margin amount from their own funds. This reduces the loan risk and ensures borrower commitment.

  Rate of Interest: Interest rates on loans are fixed as per RBI guidelines. They may vary depending on the type of loan and risk involved.

- **Repayment Schedule:** Banks fix a clear repayment schedule specifying the installment amount and duration. Timely repayment is mandatory to avoid penalties.

- **Documentation:** Proper legal and financial documents must be submitted by the borrower.

  Documentation ensures legal validity and accountability.

- **Monitoring and Follow-up:** Banks regularly monitor loan accounts to ensure proper use of funds. Follow-up helps prevent defaults and non-performing assets.

  Provision for Bad and Doubtful Debts: Banks set aside a portion of profits as provisions against possible loan losses. This protects banks from financial instability.

5.6 Priority Sector Lending (PSL) :

Priority Sector Lending refers to loans provided to sectors that are important for economic development but may not get adequate credit otherwise. RBI mandates banks to lend a specific percentage of their total credit to priority sectors.

- **Objectives of Priority Sector Lending (PSL)**

  Promote Inclusive Growth: PSL aims to ensure that credit reaches all sections of society. It supports balanced economic development.

  Support Weaker Sections: It provides financial assistance to economically weaker groups. This helps improve their standard of living.

  Reduce Dependence on Moneylenders: PSL offers affordable bank credit. This protects borrowers from exploitation by moneylenders.

5.6.1 Farmers, Agricultural Lending and importance:

- **Agricultural Lending:** Banks provide loans to farmers for crop cultivation and allied activities.

  These loans help improve agricultural operations and productivity.

- **Crop Cultivation:** Loans are given for growing crops. They help farmers manage seasonal farming expenses. The government also provides crop insurance, which will be helpful in their financial deficit in times of uncertainty.

- **Seeds, Fertilizers, and Pesticides:** Banks finance the purchase of quality inputs. This improves crop yield and farm income.

- **Agricultural Machinery:** Loans are provided for tractors, pumps, and tools. Mechanization increases efficiency and reduces labor costs.
- **Irrigation and Land Improvement:** Credit is provided for irrigation facilities and land development. This ensures better water management.
- **Enhances Agricultural Productivity:** Loans enable farmers to use better inputs and technology.

  This increases farm output.
- **Improves Farmers' Income:** Higher productivity leads to better earnings. It improves farmers' living conditions.
- **Ensures Food Security:** Increased production helps meet food demand. It supports national food security.

5.6.1.1 Types of Agricultural Loans

Short-Term Crop Loans: These loans are given for seasonal farming needs. They are usually repaid after harvest.

- **Medium-Term Equipment Loans:** Provided for purchasing farm equipment. Repayment is spread over a few years.
- **Long-Term Land Development Loans:** These loans are used for land improvement and irrigation projects. They have a long repayment period.

5.6.2 MSMEs (Micro, Small and Medium Enterprises) and importance:

- **MSME Lending:** MSMEs are small business units that contribute significantly to economic growth. Banks provide credit to support their activities.
- **Establishment of New Units:** Loans help entrepreneurs start new businesses. This promotes self-employment.
- **Expansion and Modernization:** Credit is provided to expand operations and adopt new technology. This improves efficiency.

- **Purchase of Machinery:** Loans help MSMEs buy modern machinery. This increases production capacity.
- **Working Capital Requirements:** Banks provide funds for day-to-day business needs. This ensures smooth operations.
- **Promotes Entrepreneurship:** Easy credit encourages people to start businesses. It supports innovation.
- **Generates Employment:** MSMEs create large-scale employment opportunities. They help reduce unemployment.
- **Contributes to Exports:** Many MSMEs produce export-oriented goods. This earns foreign exchange.

5.6.3 Weaker Sections

- **Weaker Section:** Weaker sections consist of economically disadvantaged groups. They require special financial support because they don't have any type of infrastructure, as well as financial support for being educated.
- **Small and Marginal Farmers:** These farmers have limited land holdings. Loans help meet farming expenses. Many farmers in India don't have a finance for farming work. If govt.

  improve the financial support for farmers then it will be a great help for farmers.
- **Landless Laborers:** Credit supports income-generating activities. It improves their livelihood.

  There are landless laborers who can only earn money for half a day's bread.
- **SC/ST Communities:** Loans help in education and self-employment. They promote social inclusion.
- **Women Self-Help Groups (SHGs):** SHGs receive loans for small enterprises. This empowers women financially.
- **Artisans and Craftsmen:** Credit helps in purchasing tools and raw materials. It preserves traditional skills.

5.6.3.1 Objectives and Features of Loans to Weaker Sections

- **Low Interest Rates:** Loans are provided at concessional rates. This reduces financial burden.

  Flexible Repayment and Lower interest rates can be useful for many farmers for farming and other social functions like marriage of children.

- **Repayment terms are borrower-friendly:** This encourages timely repayment. The Government makes some payment-friendly loans that support weaker sections of society.

- **Government Subsidies:** Many loans are supported by subsidies. This makes credit affordable.

  The government subsidy will be helpful for many weaker sections and their upliftment.

- **Poverty Alleviation:** Access to credit helps increase income. It reduces poverty. There are many new schemes of the government that try to reduce poverty among the weaker sections of society.

  Social and Economic Upliftment: Loans improve living standards and self-reliance. They promote inclusive development.

5.7 Concept of Interest Rate and EMI :

Interest Rate

Interest rate is the cost paid by the borrower for using borrowed money. It is charged by the lender as a percentage of the loan amount. Interest is the main income source for banks.

Types of Interest Rate

- **Fixed Interest Rate**

  Fixed interest rate remains constant throughout the loan period. The EMI does not change, making repayment predictable.

- **Floating Interest Rate**

  Floating interest rate changes according to market conditions. EMI may increase or decrease based on RBI policy rates.

Factors Affecting Interest Rate

- **Credit Score:** A higher credit score indicates lower risk and attracts lower interest rates.

  Poor credit score leads to higher interest.

- **Loan Tenure:** Longer loan tenure usually attracts higher interest rates. Shorter tenure generally has lower interest cost.
- **Nature of Loan:** Secured loans have lower interest rates than unsecured loans. Risk level decides the interest charged.
- **RBI Monetary Policy:** RBI policies influence bank lending rates. Changes in repo rate affect interest rates.

EMI (Equated Monthly Installment)

EMI is the fixed amount paid by the borrower every month to repay the loan. It includes both principal and interest components.

Components of EMI

- **Principal:** Principal is the original amount borrowed from the bank. A portion of EMI reduces this amount each month.
- **Interest:** Interest is charged on the outstanding loan balance. It forms a major part of EMI in the initial years.

Factors Affecting and Advantages of EMI

- **Loan Amount:** Higher loan amount results in higher EMI. Lower loan amount reduces monthly burden.
- **Interest Rate:** Higher interest rate increases EMI. Lower rates reduce EMI amount.
- **Loan Tenure:** Longer tenure reduces EMI but increases total interest paid. Shorter tenure increases EMI but lowers total interest.
- **Easy Monthly Planning:** Fixed EMI helps borrowers plan monthly expenses easily. It ensures financial discipline.
- **Predictable Repayment:** EMI provides clarity on repayment amount and duration. This avoids uncertainty in loan repayment.

5.8 Difference Between Secured and Unsecured Loans :

Basis of Difference	Secured Loans (With Security)	Unsecured Loans (Without Security)
Meaning	A secured loan is a type of loan in which the borrower provides an asset or property as collateral to the lender as a guarante for repayment of the loan.	An unsecured loan is a type of loan in which the borrower does not provide any asset or property as collateral and the loan is given only on the basis of trust and creditworthiness.
Security / Collateral	Security is compulsory. Assets such as house, land, car, gold, fixed as house, land, car, gold, fixed deposit, or other valuable property are pledged to the bank or financial institution.	No sceurity is required. The borrower is not required to pledge any asset to obtain the loan.
Risk to Lender	Risk is low because if the borrower fails to repay the loan, the lender can legally seize and sell the asset to recover the loan amount.	Risk in high because the lender has no asset to sell and can only recover money through legal action and court procedures.
Interest Rate	Interest rate in comparatively low because the lender's money is protected by collateral and chances of loss are less.	Interest rate is comparatively high because the lender faces higher risk of non-repayment.
Loan Amount	Higher loan amount can be sanctioned as the loan is based on the value of the security provided by the borrower.	Loan amount is usually limited and depends on income, credit score, and repayment ability of the borrower.
Repayment Period	Repayment period is longer, sometimes extending up to 15-30 years in case of home loans, making monthly installments smaller.	Repayment period is shorter, usually ranging from 1 to 5 years, leanding to higher monthly installments.
Basis of Approval	Approval depends mainly on the value of the asset, legal ownership of the property, and also on income and repayment capacity of the borrower.	Approval depends mainly on salary, job stability, credit score, past loan repayment record, and overall financial reliability.

Processing Time	Processing time is longer because banks must verify property documents, asset value, and legal clearances before sanctioning the loan.	Processing time is faster because there is no asset verification and only income and credit details are checked.
Purpose of Loan	Generally taken for big financial needs such as buying a house, purchasing a vehicle, business expansion, or construction of property.	Generally taken for short-term or personal needs such as medical expenses, travel, marriage, education, or emergencies.
Legal Rights of Lender	Lender has the legal right to take possession of the asset and auction it in case of continuous default by the borrower.	Lender cannot take any asset directly and must approach courts or use recovery agencies for loan recovery.
Examples	Home loan, car loan, gold loan, loan against property, loan against fixed deposit.	Personal loan, credit card loan, consumer durable loan, some education loans.
Effect on Borrower in Default	Borrower may lose the valuable asset pledged as security, which can cause long-term financial loss.	Borrower does not lose any asset, but credit score is damaged and legal action may be taken for recovery.

Exercise :

Q.1 Multiple Choice Questions (MCQS)

1) The main source of income for banks is:

A. Commission B. Deposits

C. Interest on loans D. Investments

Answer: C) Interest on loans

2. A loan is usually granted for:

A. An indefinite period B. A specific purpose and period

C. Charity D. Free service

Answer: B) A specific purpose and period

3. Advances are generally:

   A. Long-term in nature B. Interest-free

   C. Short-term credit facilities D. Provided only to individuals

   Answer: C) Short-term credit facilities

4. Which of the following is NOT an objective of bank loans?

   A. Economic development B. Profit earning

   C. Financial inclusion D. Tax collection

   Answer: D) Tax collection

5. Loans help in employment generation by:

   A. Increasing population B. Supporting business expansion

   C. Increasing bank deposits D. Reducing savings

   Answer: B) Supporting business expansion

6. Financial inclusion means:

   A. Providing insurance

   B. Bringing people into the formal banking system

   C. Closing rural banks

   D. Giving free loans

   Answer: B) Bringing people into the formal banking system

7. Which loan is used for higher education?

   A. Vehicle loan B. Personal loan

   C. Education loan D. Business loan

   Answer: C) Education loan

8. Loans provided for more than 5 years are called:

   A. Short-term loans B. Medium-term loans

   C. Long-term loans D. Temporary loans

   Answer: C) Long-term loans

9. Which of the following is a business loan?

   A. Home loan   B. Education loan

   C. Working capital loan   D. Personal loan

   Answer: C) Working capital loan

10. Consumer loans are used for:

    A. Profit-making activities   B. Personal consumption

    C. Government projects   D. Industrial production

    Answer: B) Personal consumption

11. Which of the following is a consumer loan?

    A. Cash credit   B. Machinery loan

    C. Home loan   D. Working capital loan

    Answer: C) Home loan

12. Business loans are mainly provided for:

    A. Household expenses   B. Medical emergencies

    C. Commercial purposes   D. Travel expenses

    Answer: C) Commercial purposes

13. Priority Sector Lending is regulated by:

    A. SEBI   B. Government of India

    C. RBI   D. NABARD

    Answer: C) RBI

14. Which of the following comes under priority sector lending?

    A. Luxury housing   B. Agriculture

    C. Gold purchase   D. Tourism

    Answer: B) Agriculture

15. Agricultural loans are provided for:

    A. Buying luxury items   B. Crop cultivation

    C. Foreign travel   D. Stock market investment

    Answer: B) Crop cultivation

16. Crop loans are generally:

    A. Long-term loans B. Medium-term loans

    C. Short-term loans D. Interest-free loans

    Answer: C) Short-term loans

17. MSME stands for:

    A. Medium Service Manufacturing Enterprises

    B. Micro, Small, and Medium Enterprises

    C. Main Small Market Enterprises

    D. Micro Sector Management Enterprises

    Answer: B) Micro, Small, and Medium Enterprises

18. Loans to MSMEs help in:

    A. Reducing exports B. Employment generation

    C. Increasing imports D. Inflation

    Answer: B) Employment generation

19. Which of the following belongs to the weaker sections?

    A. Corporate houses B. Large traders

    C. Small and marginal farmers D. Multinational companies

    Answer: C) Small and marginal farmers

20. Loans to weaker sections are usually provided at:

    A. High interest rates B. Market rates only

    C. Concessional interest rates D. No interest

    Answer: C) Concessional interest rates

21. Interest rate is:

    A. The principal amount B. Cost of borrowing money

    C. Bank profit only D. Government tax

    Answer: B) Cost of borrowing money

22. EMI stands for:

    A. Equal Monthly Interest
    B. Easy Monthly Installment
    C. Equated Monthly Installment
    D. Estimated Monthly Income

    Answer: C) Equated Monthly Installment

23. EMI includes:

    A. Principal only
    B. Interest only
    C. Principal and interest
    D. Penalty charges

    Answer: C) Principal and interest

24. Which factor affects EMI?

    A. Loan amount
    B. Interest rate
    C. Loan tenure
    D. All of the above

    Answer: D) All of the above

25. Secured loans require:

    A. No documents
    B. Collateral
    C. High interest
    D. No repayment

    Answer: B) Collateral

26. Which of the following is an unsecured loan?

    A. Home loan
    B. Gold loan
    C. Personal loan
    D. Vehicle loan

    Answer: C) Personal loan

27. Interest rate is generally higher in:

    A. Secured loans
    B. Long-term loans
    C. Unsecured loans
    D. Agricultural loans

    Answer: C) Unsecured loans

28. When a loan is not repaid for more than 90 days, it becomes:

    A. Standard asset B. NPA

    C. Secured asset D. Priority loan

    Answer: B) NPA

29. Credit appraisal means:

    A. Giving loans quickly

    B. Checking repayment capacity of borrower

    C. Increasing interest rate

    D. Closing loan account

    Answer: B) Checking repayment capacity of borrower

30. Which institution issues guidelines for bank lending in India?

    A. SEBI B. RBI C. IRDA D. NABARD

    Answer: B) RBI

Q.2 Short Answer Questions

1. Define loan and advance.
2. What is priority sector lending?
3. What is EMI?
4. Explain the objectives of loans and advances.
5. Write features of consumer loans.
6. Explain Farmer.
7. Explain MSMEs.
8. Explain the Weaker section.

Q.3 Long Answer Questions

1. Explain the types of loans in detail.
2. Describe priority sector lending with reference to farmers, MSMEs, and weaker sections.

3. Differentiate between secured and unsecured loans.
4. Explain the objectives of loans and advances in detail.
5. Write a short note on Types of loans.
6. Explain consumer loans and business loans.
7. Explain the provisions regarding loans and advances.
8. Explain the Priority sector lending.
9. Explain the concept of interest rate and EMI.
10. Explain the Difference between secured and unsecured loans.

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Unit - 6
Banking Services

6.1 Introduction

6.2 Traditional Vs. Modern Banking Services

6.3 Plastic Money

6.4 E-wallets and Digital Apps

6.5 Mobile banking

6.6 RTGS

6.7 NEFT

6.8 IMPS

6.9 UPI payments

6.10 Safe Deposit Lockers

6.11 Customer Care & grievance redressal

Exercise

6.1 Introduction :

Banking services play a central role in the financial system and support the economic development of a country. Banks act as intermediaries that connect individuals, businesses, and government institutions with financial resources. Through their services, banks help people save money, access credit, make payments, and manage financial transactions safely and efficiently. In modern economies, banking services have expanded beyond traditional functions and now include digital platforms, mobile banking, investment services, insurance products, and advisory support. These services are designed to meet the diverse financial needs of customers while maintaining trust, security, and stability in the financial sector. As technology evolves and customer expectations change, banking services continue to adapt and contribute to the smooth functioning of economic activities. Banking services form the backbone of the financial system and support the smooth functioning of economic activities. A bank serves as a trusted institution that receives deposits

from the public, provides loans, and offers various financial products that help individuals and businesses manage money effectively. By perforning these functions, banks promote savings, encourage investment, and facilitate the flow of funds across diferent sectors of the economy.

In the past, banks mainly focused on accepting deposits and granting loans. Today, the range of services offered by banks has grown significantly due to technological progress and increasing customer expectations. Banks now provide digital banking, mobile applications, electronic payment systems, credit and debit cards, wealth management, insurance related services, and financial advisory support. These services make financial transactions faster, safer, and more convenient for customers.Banking services also contribute to economic stability by ensuring proper regulation, secure transaction systems, and effective risk management. They help individuals plan for future financial needs, assist businesses in expanding their operations, and support government programs through the managenment of public funds.Overall, banking services play a vital role in connecting people with financial opportunities and strengthening the overall economic structure. Their continuous development reflects the changing needs of society and the growing importance of financial literacy in everyday life.

6.2 Traditional Vs. Modern Banking Services :

Traditional Banking Services

Traditional banking focuses on face to face interactions and physical branch operations. Customers visit branches to open accounts, deposit or withdraw cash, apply for loans, or seek financial guidance. Most transactions occur through manual procedures handled by bank staff. Traditional banking relies heavily on paperwork, personal verification, and direct customer service. This model fosters personal relationships between customers and bank employees, creating a sense of trust and familiarity. However, traditional services often involve longer waiting times, limited operating hours, and more effort from customers to complete routine tasks.

Modern Banking Services

Modern banking services reflect the rapid growth of digital technology. Banks now offer online platforms, mobile applications, electronic payment systems, and

automated customer support. Customers can transfer funds, pay bills, check balances, invest money, and manage accounts without visiting a branch. These services operate around the clock, provide faster processing, and reduce the need for physical paperwork. Modern banking also includes innovative products such as digital wallets, virtual cards, instant alerts, and integrated financial planning tools. This approach prioritizes convenience, efficiency, and accessibility while maintaining strong security measures through advanced authentication systems.

Point of Difference	**Traditional Banking Services**	**Modern Banking Services**
Method of Operation	Works mainly through physical branches and face to face communication	Operates through digital platforms such as websites and mobile apps
Customer Interaction	Direct interaction with bank staff	Mostly self service with limited physical contact
Accessibility	Limited to branch hours and location	Available at any time and accessible from any place
Speed of Transactions	Slower due to manual processing	Faster because of automated systems
Documentation	Requires physical forms and signatures	Uses digital forms and electronic verification
Convenience	Less convenient because customers must visit branches	Highly convenient with remote access to services
Transaction Costs	Often higher due to manual work and branch maintenance	Usually lower because of digital operations
Technology Use	Minimal use of advanced technology	Extensive use of digital tools and modern technology
Security	Relies on traditional security measures and personal verification	Uses advanced security features such as encryption and digital authentication
Range of Services	Mostly basic services like deposits, withdrawals, and loans	Offers a wider range including online payments, digital wallets, and investmnent tools

6.2.1 Traditional Vs. Modern Banking Services with examples

Traditional banking still relies on physical branches and direct interaction with bank staff. Even today, many customers visit branches for activities that require in person verification. For example, some banks still require customers to visit the branch for high value cash withdrawals or to complete final steps of home loan documentation. Many people also visi branches to update large fixed deposits or to settle issues related to old account records. Although technology is growing, traditional branches remain important for services like safe deposit locker access and in person financial advice. These services give a sense of personal reassurance but take more time and require physical presence.

Modern banking has expanded quickly with advanced digital features. Customers now use mobile banking apps, digital wallets, and online payment systems to complete tasks instantly. For example, banks now offer instant digital account opening through video based KYC, where the customer completes verification on a video call. Payments are also faster through real time systems like UPI in India, FedNow in the United States, and PayTo in Australia. Many banks provide AI powered chat assistants that help customers check balances, raise complaints, or block cards instantly. Modern banking also includes features like virtual debit cards for online shopping, contactless payments using smartphones and smartwatches, and biometric login through face scanning or fingerprints. These innovations make banking faster, more secure, and available round the clock.

1. **Mode of use**

   Traditional banking requires physical presence at branches. Example: Visiting the bank to access a safe deposit locker or complete final loan signing. Modern banking operates through apps and online platforms. Example: Opening a bank account using video based KYC on a mobile app.

2. **Speed of transactions**

   Traditional banking process take more time due to manual steps.

Example: Waiting for branch staff to process a cheque or verify a signature.

Modern banking provides instant digital transactions.

Example: Making immediate payments using UPI, FedNow, or Apple Tap to Pay.

3. **Accessibility**

Traditional banking works only during branch busincss hours.

Example: Visiting a branch between scheduled hours to update large deposits. Modern banking is accessible all day and all night. Example: Sending money instantly through a digital wallet or mobile banking at any time.

4. **Documentation**

Traditional banking uses physical forms and signatures. For Example: Submitting printed documents for large value lons or KYC updates. Modern banking uses electronic documents and digital verification. For Example: Uploading scanned documents and completing e sign for a loan application online.

5. **Range of Services**

Traditional banking offers basic services at branches. For Example: Opening fixed deposits or withdrawing cash in person. Modern banking offers advanced and technology based services. For Example: Using virtual debit cards, biometric login, instant investment platforms, and automatic bill payments through apps.

6.3 Plastic Money :

Plastic money refers to payment instruments made of plastic that allow customers to access banking services without using physical cash. These instruments rely on electronic systems to authorize, record and complete financial transactions.

6.3.1 Meaning of Plastic Money

Plastic money is any card based payment tool issued by a bank that enables the holder to withdraw funds, make purchases, transfer money

or access account information electronically. It replaces the need for carrying cash and supports secure and convenient financial operations.

6.3.2 Common Forms of Plastic Money

1) Debit card

A debit card is linked directly to a customer's bank account. Whenever the customer makes a purchase or withdraws cash the amount is immediately deducted from the account balance. It is widely used for ATM withdrawals: point of sale payments and online. A debit card is a financial instrument issued by banks that allows account holders to access funds directly from their savings or current accounts for various transactions. Unlike credit cards, which allow borrowing against a credit limit, debit cards enable customers to spend only the money available in their bank accounts. These cards are linked to the account electronically and can be used for purchases at retail stores, online shopping, bill payments, and ATM withdrawals. They have become a popular tool in modern banking due to their convenience, security, and ease of use. When a customer uses a debit card to make a payment, the amount is immediately deducted from the linked account. This real-time transaction system helps account holders manage their finances effectively and avoid overspending. Debit cards come with a personal identification number known as a PIN, which adds an extra layer of security to prevent unauthorized access. Many banks also provide additional features such as contactless payment options, daily transaction limits, and instant notifications for every transaction, enhancing the user experience and safety.

Debit cards are widely accepted across various platforms. They can be used for in-store purchases by swiping or inserting the card into a point-of-sale terminal, or by scanning a QR code. For online transactions, debit cards allow payments through secure gateways, often requiring the card number, expiration date, and CVV code. Some banks offer debit cards with additional benefits such as reward points, cashback offers, and discounts at partner merchants. These features encourage customers to use digital payments while providing financial incentives.

One of the significant advantages of debit cards is their convenience. Carrying cash is no longer necessary, and transactions can be completed quickly with a card. In emergencies, cash can be withdrawn from ATMs at any time. Debit cards also help users track their spending habits, as monthly statements reflcct all transactions, enabling better budgeting and financial planning.

Banks have also integrated debit cards with mobile banking applications, allowing customers to block or unblock cards, set transaction limits, and monitor acivity directly from their smartphones. Advanced security measures, including fraud detection systems and two-factor authentication, ensure that users' funds are protected. This combination of accessibility, convenience, and security has made debit cards a fundamental part of modern banking services.

In conclusion, debit cards are a versatile and secure tool for accessing funds and making payments. They provide account holders with convenience, control, and real-time access to their money while promoting a cashless and digitally enabled economy. Through features like instant notifications, secure transactions, and integration with mobile banking, debit cards have become indispensable in everyday financial management.

2. Credit cards

A credit card is a financial tool issued by banks and financial institutions that allows customers to borrow money within a pre-approved limit to make purchases or pay for services. Unlike debit cards, which use the customer's own funds, credit cards provide temporary access to the bank's money, giving users flexibility in managing expenses. The borrowed amount can be repaid in full by the due date or in monthly installments, depending on the repayment option chosen. Banks usually offer a grace period during which no interest is charged if the balance is cleared on time. If the payment is delayed, interest is applied to the outstanding balance.

Credit cards provide several additional benefits beyond borrowing funds. Many cards offer reward points for purchases, which can be

redecmed for products, gift vouchers, or travel benefits. Cashback options are also popular, allowing a percentage of spending to be credited back to the account. Some cards include travel-related perks such as airport lounge access, discounts on flight tickets, and insurance coverage for trip cancellations or delays. Purchase protection and fraud liability coverage ensure that customers can shop with confidence, knowing that they are protected against unauthorized transactions.

Using a credit card also improves financial management if used responsibly. Monthly statements provide a detailed record of transactions, helping customers track expenses and plan budgets. Credit cards are widely accepted for both online and offline transactions, making them convenient for shopping, bill payments, subscriptions, and emergency expenses. Additionally, they can be used to withdraw cash from ATMS, although this usually attracts higher interest rates.

Security features on credit cards are constantly improving. Most cards now include chip- and-PIN technology, two-factor authentication for online transactions, and fraud monitoring systems that alert users to suspicious activity. Contactless payment options allow faster transactions while maintaining security. Banks also offer mobile applications where customers can view statements, set spending limits, block cards, and manage rewards, making the overall experience user-friendly and safe.

Credit cards are also valuable for building a credit history. Responsible usage, such as timely repayment of balances, contributes to a positive credit score, which is important when applying for loans or other financial products. This makes credit cards not only a convenient payment tool but also an essential instrument for long-term financial planning.

In conclusion, credit cards provide flexible borrowing, enhanced security, rewards, and convenience for managing personal finances. When used responsibly, they support budgeting, offer protection, and contribute to building a strong credit profile. By combining financial

access with numerous perks, credit cards have become an integral part of modern banking services.

A credit card allows the customer to borrow furnds from the issuing bank up to a fixed limit. The customer can pay the borrowed amount later, either in full or in installments. Banks charge interest if the balance is not paid within the grace period. Credit cards also ofer rewards, customer protection, travel benefits and purchase insurance.

3. Prepaid cards

A prepaid card is a payment card that is loaded with funds in advance and can be used for transactions up to the amount stored on the card, Unlike debit cards, which draw money directly from a bank account, or credit cards, which allow borrowing, prepaid cards only allow spending the balance that has been preloaded. They are widely used for controlled spending, gifting, online purchases, travel, and salary disbursement. Prepaid cards provide the convenience of a card without the need for a linked bank account, making them accessible to a wide range of users.

Prepaid cards come in various forms, including reloadable cards, which can be topped up with additional funds, and non-reloadable cards, which are used until the initial balance is exhausted. Customers can use these cards for retail purchases, online transactions, and bill payments, just like a regular debit or credit card. Some prepaid cards are designed for specific purposes, such as travel cards for international use, gift cards for specific stores or brands, and payroll cards issued by employers to transfer salaries digitally. One of the major advantages of prepaid cards is the ability to control spending. Since users can only spend the preloaded amount, there is no risk of overspending or accumulating debt. This makes prepaid cards especially useful for students, individuals on a budget, and parents who want to provide controlled allowances to children. Additionally, prepaid cards are often safer than carrying cash, as lost or stolen cards can be blocked, and the funds are protected in case of misuse.

Prepaid cards also support digital banking and promote cashless transactions. Many banks and fintech companies offer mobile applications to manage prepaid cards, allowing users to check balances, reload funds, view transaction history, and make payments conveniently. Some cards also come with rewards programs, cashback offers, or discounts at partner merchants, adding value to routine spending.

From a security perspective, prepaid cards use features like PIN protection, one-time passwords for online purchases, and chip-based technology to prevent fraud. International prepaid cards are widely accepted across merchants, ATMS, and e-commerce platforms, making them ideal for travel and online shopping. They also help individuals participate in the formal financial system without requiring a full bank account, contributing to financial inclusion.Prepaid cards are flexible, secure, and convenient tools for managing money in a controlled manner. They enable cashless transactions, support budgeting, and provide access to digital payments without the need for borrowing. With widespread acceptance, user-friendly features, and robust security measures, prepaid cards have become an essential part of modern banking services, offering financial empowerment to a wide variety of users.

4. ATM cards

Some banks issue cards that are used mainly for ATM services such as cash withdrawal, balance inquiry and fund transfer between accounts. They may not always support point of sale usage. An ATM card, also known as an automated teller machine card, is a banking tool that allows customers to access cash and perform basic financial transactions at ATMs. Unlike debit or credit cards, an ATM card is primarily used for cash withdrawals, balance inquiries, and mini statements. It is linked directly to the customer's bank account, and all transactions are reflected in real time. ATM cards provide customers with the convenience of accessing funds outside bank hours, reducing the need to visit the branch for simple banking tasks.

Using an ATM card requires a personal identification number, or PIN, which ensures that only the authorized account holder can perform transactions. This security feature prevents unauthorized access and protects the customer's funds. ATM cards can also be used to transfer money between accounts, pay utility bills, and deposit cash or cheques at certain ATMs, depending on the bank and the machine's capabilities. Banks often provide instructions and customer support to guide users through these services, making the process simple and secure.

ATM card gives benefits like accessibility and Customers can withdraw cash from multiple ATMs across the city or country, often including ATMs of other banks through interbank networks. This wide acceptance ensures that funds are always available when needed. whether for emergency expenses, daily purchases, or travel purposes. Additionally, ATM cards reduce the need to carry large amounts of cash, making transactions safer and more convenient.

Banks continually improve the security of ATM cards by integrating chip technology, two-factor authentication, and fraud monitoring systems. Alerts and notifications for each transaction help account holders track their spending and detect any unusual activity. Some banks also allow customers to temporarily block or permanently replace lost or stolen cards through mobile banking applications, providing flexibility and enhanced safety.

In addition to personal use, ATM cards support financial inclusion by enabling access to banking services for individuals who may not frequently visit bank branches. They offer a simple and reliable way to perform essential banking activities, bridging the gap between traditional and digital banking. Thus, ATM cards are a practical and secure tool for managing everyday financial transactions. They provide convenient access to cash, account information, and basic banking services while promoting safety and efficiency. By combining accessibility, security, and case of use, ATM cards continue to play a vital role in moden banking services, making financial resources readily available to customers at all times.

6.3.3 How Plastic Money Supports Banking Services

1) **Easy Access to Funds**

Customers can withdraw or spend money at any time through ATMs and card terminals which improves convenience and reduces dependence on bank branches.

2) **Faster Payments**

Card transactions allow quick settlement for both customers and merchants. This supports efficient commerce and reduces delays often seen in cash handling.

3) **Secure Transactions**

Banking cards use security features such as chip technology, personal identification numbers and real time monitoring to reduce fraud. Banks can track suspicious activity and notify customers promptly.

4) **Promotion of Digital Banking**

Plastic money encourages customers to use digital channels such as mobile banking and internet banking since card payments often integrate with online platforms. This helps banks reduce cash management costs and improve service quality.

5) **Global Acceptance**

International cards like Visa and Mastercard enable customers to make payments abroad or online across different countries. This enhances customer mobility and supports global business transactions.

6.3.1 Debit card

A debit card is a payment card issued by a bank that is directly linked to the holder's bank account, usually a savings or current account. When a customer uses a debit card to make a purchase at a store or online, or to withdraw cash from an ATM, the amount is immediately deducted from their account balance, Banks provide debit cards to allow easy access to funds without visiting the branch. Debit cards are also used for other banking services such as checking account balances,

transferring money between accounts, paying utility bills, and generating mini statements from ATMs. They promote financial convenience and reduce the need for carrying cash.

6.3.2 Credit card

A credit card is a payment card issued by a bank that allows the customer to borrow money up to a predetermined credit limit. The cardholder can make purchases or withdraw cash and pay the bank later either in full or in installments. Banks charge interest on unpaid balances if the payment is not made within the agreed grace period. Credit cards are widely accepted for both domestic and international transactions. In addition to payment services, banks provide features such as reward points, cashback offers, travel benefits, purchase protection, and fraud monitoring. Credit cards help customers manage their short-term financial needs while providing flexibility in spending.

6.3.3 Prepaid card

A prepaid card is a payment card that is preloaded with a specific amount of money before use. Unlike debit and credit cards, it is not linked to a bank account. The customer can spend only the available balance on the card. Banks offer prepaid cards for purposes such as budgeting, gifting, travel, or salary disbursement. Once the balance is used, some prepaid cards can be reloaded with additional funds. Prepaid cards provide security and convenience because they eliminate the need to carry cash and allow controlled spending.

6.3.4 Difference between Debit card, Credit card and Prepaid card

Points of Difference	Debit Card	Credit Card	Prepaid Card
Definition	A card linked directly to the customer's bank account used to withdraw or	A card that allows borrowing from the bank up to a fixed limit and repaying later.	A card preloaded with a fixed amount of money for spending. Not linked to a bank account.

	spend funds immediately.		
Source of Funds	Own money in the bank account.	Bank credit or borrowed money.	Preloaded funds loaded in advance.
Payment Timing	Immediate deduction from account at the time of transaction.	Payment is due later: can pay in full or in installments.	Deducted from preloaded balance at the time of use.
Banking Services Access	ATM withdrawals, balance inquiries, fund transfers, bill payments, shopping payments.	Online and offline shopping, cash withdrawals (with interest), reward programs, fraud protection.	Online and offline shopping, travel payments, gifting, controlled spending.
Interest Charges	No interest charged.	Interest charged if full payment is not made within grace period.	No interest charged.
Security	PIN and sometimes OTP for online transactions.	PIN, OTP, fraud monitoting, purchase protection.	PIN for transactions, sometimes OTP for online use.
Advantages	Provides immediate access to own funds, reduces cash handling, safe and convenient.	Flexible spending, reward points, travel benefits, builds credit history.	Safe alternative to cash, controlled spending, suitable for budgeting or gifting.
Limitations	Only works if sufficient balance is available.	Risk of overspending, interest and late fees if payment delayed.	Limited to prepaid balance, may require reloading for continued use.

6.4 E-wallets and Digital Apps :

E-Wallets

An e-wallet, also known as a digital wallet, is a secure electronic platform that allows individuals to store money digitally and perform financial transactions without using physical cash. It can be linked to a bank account, debit card, or credit card, or it can hold a prepaid balance loaded in advance. Customers can use e-wallets to pay bills, shop online, transfer funds to other accounts, recharge mobile phones, and make payments at retail outlets that accept digital payments.

E-wallets provide significant convenience because all transactions can be completed through a smartphone, tablet, or computer, eliminating the need to carry cash or cards. They also offer tools to track spending patterns, manage budgets, and monitor transaction history. Many e-wallets include features such as cashback offers, reward points, loyalty programs, and instant notifications, which enhance financial management.

Security is a primary concern, and e-wallet providers implement measures such as password protection, one-time passwords, encryption, biometric authentication, and fraud detection systems to safeguard users' funds. By facilitating quick, safe, and contactless payments, e-wallets encourage the adoption of digital banking and support the transition towards a cashless economy.

E-wallets also play a vital role in promoting financial inclusion, particularly for individuals in rural or remote areas who may not have easy access to traditional banking infrastructure. They enable people to participate in the digital economy by providing easy access to essential banking and payment services, making financial transactions more accessible and efficient.

Digital Banking Apps

Digital banking apps are mobile or web-based applications developed by banks and financial institutions that allow customers to access a wide range of banking services electronically. They act as a virtual branch, providing users the ability to perform most banking operations anytime and anywhere without the need to visit a physical bank. These apps integrate modern technology with banking, making financial transactions faster, safer, and more efficient.

6.4.1 Uses of Digital Banking Apps

1. **Account Management**

   Digital banking apps allow users to check their account balances, view detailed transaction histories, download monthly or yearly statements, and manage multiple accounts simultaneously. Customers can also set notifications for incoming and outgoing transactions, helping them stay informed about their finances.

2. **Fund Transfers**

   Users can transfer money within the same bank or to accounts in other banks using platforms such as NEFT, RTGS, and IMPS. Some apps allow instant peer-to-peer transfers using UPI or mobile numbers, making money transfers fast and convenient.

3. **Bill Payments and Recharges**

   Customers can pay utility bills such as electricity, water, gas, internet, and mobile phone bills directly through the app. Many apps also allow automatic bill payments and reminders, reducing the chances of late payments. Users can recharge prepaid mobile phones, DTH services, and even digital subscriptions quickly.

4. **Loan and Credit Services**

   Digital banking apps allow customers to apply for personal loans, home loans, or credit cards online. Users can track the status of their loan applications, repay EMIs, and even repay loans using the app. Some apps also offer instant approval for small loans or credit facilities.

5. **Investment and Wealth Management**

   Many apps provide facilities to invest in fixed deposits, recurring deposits, mutual funds, government bonds, or insurance policies. Users can monitor their portfolio, check interest accrual, and receive investment suggestions based on their financial goals.

6. **Card Management**

   Customers can manage debit and credit cards directly through the

app. Features include blocking lost cards, setting spending limits, checking card statements, enabling or disabling online or international transactions, and receiving instant alerts for card usage.

7. **Digital Payments**

   Apps support digital payments using QR codes, NFC technology, or UPI transfers. This allows customers to make safe, cashless transactions at retail stores, restaurants, and online platforms without using physical cash.

8. **Customer Support and Assistance**

   Digital banking apps provide integrated customer support features, including chatbots, FAQs, video calls, and request submission for account-related queries. Real-time alerts and notifications also help customers monitor unauthorized activities.

6.5 Mobile banking :

Mobile banking is a service provided by banks that allows customers to perform financial transactions and manage their accounts using a smartphone or tablet. It provides a convenient alternative to visiting a physical bank branch, enabling users to access banking services anytime and anywhere. Through mobile banking applications, customers can check account balances, view transaction histories, download statements, and monitor multiple accounts from a single device.

Mobile banking also allows users to transfer funds within the same bank or to other banks using methods such as IMPS, NEFT, RTGS, or UPI, Customers can pay utility bills, recharge mobile phones, settle insurance premiums, and make recurring payments quickly. Many apps offer investment and loan management services, allowing users to invest in fixed deposits, mutual funds, and recurring deposits or apply for personal loans and track repayment schedules.

Digital payments are an important feature of mobile banking, Users can make secure payments at retail stores or online platforms using QR codes, NFC technology, or UPI transfers. Real-time notifications and alerts keep customers informed about account activity, upcoming payments, and unusual transactions. Banks also provide customer support through mobile banking apps, including chat assistance, call support, and FAQs, to resolve issues eficiently.

Security is a key aspect of mobile banking. Applications use measures such as two-factor authentication, encryption, secure OTP verification, biometric login, and fraud detection systems to protect customers' accounts and personal information. These security measures ensure that digital transactions are safe and reliable.

The benefits of nmobile banking include convenience, speed, and accessibility. It allows customers to manage finances from anywhere, reduces the need for branch visits, saves time, and supports cashless transactions. Mobile banking also promotes financial inclusion by providing access to banking services in rural or remote areas. Furthermore, it helps users track spending, plan budgets, and maintain financial discipline, making it an essential tool in modern banking.

6.6 RTGS (Real-Time Gross Settlement) :

RTGS stands for Real-Time Gross Settlement, a system used for transferring funds from one bank account to another on a real-time and individual basis. It is primarily used for high-value transactions and provides a secure, fast, and efficient method of transferring money between banks. Unlike other fund transfer systems, RTGS processes each transaction separately without netting, ensuring immediate settlement and reducing the risk of delay. The key feature of RTGS is that transactions are settled in real time, which means that the funds are transferred and credited to the beneficiary's account instantly once the transaction is processed. This system is generally used for transactions above a certain threshold, which varies depending on the country's banking regulations. In India, for example, the minimum amount for RTGS transactions is typically two lakh rupees, with no upper limit.

To initiate an RTGS transaction, a customer needs to provide the bank with details such as the beneficiary's account number, the IFSC code of the beneficiary's bank branch, and the amount to be transferred. Banks verify the details and then send the payment instructions to the central bank, which acts as a clearing and settlement authority. Once approved, the funds are transferred immediately, ensuring that both the sender and the receiver have instant confirmation of the transaction.The main benefits of RTGS include speed, safety and reliability. Since transactions are settled individually and in real time, there is no risk of pending payments or delays. It is particularly useful for urgent business payments, large- value corporate transactions, and inter-bank settlements. RTGS is also highly secure, as all transactions are monitored and authorized by banks and central banking authorities.

RTGS is a critical component of modem banking infrastructure that facilitates fast, secure, and high-value fund transfers. It ensures real-time settlement of transactions, reduces payment risks, and supports the smooth functioning of financial and commercial activities in the economy. RTGS is commonly used by businesses, banks, and government institutions that need to move significant amounts of money quickly.

The system works through the central banking infrastructure, which acts as a clearing and settlement authority. When a customer initiates a transfer, the bank verifies the account details, the IFSC code, and the amount. The transaction is then sent to the central system, where it is processed immediately and credited to the recipient's account. Both the sender and the receiver receive instant confirmation of the transaction.

6.7 NEFT :

National Electronic Funds Transfer, commonly known as NEFT, is a nationwide payment system that facilitates the smooth transfer of funds between bank accounts within India. It operates on a deferred settlement model, meaning transactions are processed in half hourly batches throughout the day. This structure ensures consistent movement of money while maintaining reliability and security. NEFT is regulated by the Reserve Bank of ndia, which supervises its framework and ensures compliance with established financial standards.

One of the most important benefits of NEFT is its accessibility. Individuals, businesses and government institutions can all use this service to send payments for various purposes, including salary disbursal, vendor payments, loan instalments and personal transfers. Unlike traditional methods that depend on physical instruments, NEFT enables digital transactions that minimize errors and reduce processing time.

Customers need only basic details such as the beneficiary name, bank branch, account number and IFSC code to initiate a transfer. The system is available around the clock, which allows users to send money at any time of the day, providing exceptional convenience.

Transactions are encrypted and routed securely, making NEFT a trustworthy channel for financial communication.

NEFT usually charges minimal or no fees for online transfers, which makes it a cost effective choice for regular users. Its wide reach across urban and rural areas further strengthens its importance in India's effort toward expanding digital banking. In essence, NEFT stands as a dependable and user friendly mechanism that supports the country's shift toward a more efficient and technology driven financial ecosystem.

6.8 IMPS :

IMPS stands for Immediate Payment Service, which is an electronic funds transfer system that allows customers to send and receive money instantly through mobile phones, internet banking, or ATMs. It is available 24 hours a day and seven days a week, including bank holidays, making it one of the fastest and most convenient methods of transferring funds. IMPS is widely used for small to medium-value transactions but can also handle larger payments depending on the bank's limits.

To use IMPS, a customer needs the beneficiary's account number, the Indian Financial System Code (IFSC), or the mobile number linked to the account along with a unique Mobile Money Identifier (MMID). The sender initiates the transaction through a mobile banking app, internet banking, or ATM, and the bank processes the transfer instantly. The funds are credited to the recipient's account in real time, and both the sender and the receiver receive immediate confirmation of the transaction.One of the main advantages of IMPS is its speed and accessibility. Unlike other payment systems that operate only during banking hours, IMPS allows instant fund transfer at any time, including weekends and public holidays. It is highly secure because banks use authentication measures such as passwords, OTPs, and encryption to protect customer information. IMPS also supports inter-bank transfers, making it convenient for sending money to beneficiaries in different banks across the country.

IMPS has become increasingly popular due to the growth of mobile banking and digital payments. It supports a wide range of transactions, including bill payments, merchant payments, and peer-to-peer transfers. By providing quick, reliable, and safe fund transfers, IMPS promotes financial inclusion and encourages the adoption of digital banking services across urban and rural areas. IMPS is a modern banking service that enables instant, secure. and round-the-clock money transfers, making it a vital tool in India's digital payment ecosystem.

Using IMPS is straightforward. Customers can transfer funds using the recipient's account number and IFSC code or via a mobile number linked to a Mobile Money Identifier, known as MMID. The sender initiates the transaction through a mobile banking application, internet banking platform, or an ATM. Once the details are verified, the funds are transferred immediately, and both parties receive confirmation. This real-time settlement removes the delays that can occur in other systems and ensures that transactions are secure and transparent. Each transfer generates a unique reference number that allows users to track payments and maintain records for personal or business use.

IMPS is particularly useful for urgent and high-frequency transactions. Individuals can use it to pay utility bills, recharge mobile phones, and send money to family or friends. Businesses rely on IMPS for vendor payments, employee salaries, and other operational expenses that need immediate settlement. The system supports inter-bank transfers, making it possible to send money to accounts in any participating bank nationwide. Its reliability and speed have made IMPS one of the most preferred methods for digital payments in India.

Security is a critical aspect of IMPS. Banks employ advanced encryption, one-time passwords, and multi-factor authentication to ensure that transactions are safe from fraud. Additionally, IMPS reduces the need for physical cash, which lowers risks related to theft or mismanagement. By enabling convenient, secure, and instant payments, IMPS encourages the adoption of digital banking services and contributes to the broader goal of a cashless economy. Thus, IMPS is more than just a money transfer service. It is a modern banking solution that provides speed, security, and accessibility. Its continuous availability, ease of use, and reliability make it indispensable for individuals, businesses, and financial institutions, reflecting the growing importance of digital payments in everyday life. IMPS has transformed how money moves in India, making banking faster, safer, and more efficient.

6.9 UPI payments :

Unified Payments Interface, (UPI) has revolutionized the way people handle money in India. It is a real-time digital payment system that allows users to transfer funds instantly between bank accounts usinga smartphone. UPI eliminates the traditional hassles of sharing bank account numbers and lFSC codes by letting users send money using a Virtual Payment Address, mobile number, or QR code.

This simplicity, combined with speed, sccurity, and accessibility, has made UPl one of the most widely used payment systems in the country.

To use UPI, a person needs a smartphone, an active bank account, and a UPI-enabled app, which could be the official bank app or a third-party payment app. After registering the account and setting a secure UPI PIN, the user can send or receive money instantly. Transactions are completed in seconds, and both the sender and recipient receive immediate confirmation. UPI is versatile, allowing payments for shopping, utility bills, mobile recharges, and even small everyday purchases like groceries or taxi fares. For example, someone can pay for coffee at a cafë using a QR code scan, making the transaction seamless and cashless.

One of the key strengths of UPI is its convenience. There is no need to visit a bank or ATM, stand in long queues, or carry cash. Payments can be made anytime, anywhere, including weekends and holidays. UPI also supports multiple bank accounts in one application, so users can choose which account to debit for each payment. Features like scheduled payments, bill reminders, and QR code scanning enhance its usability, making it suitable for both individuals and businesses. Small vendors and merchants, who may not have sophisticated point-of-sale systems, can accept payments instantly through UPI, promoting financial inclusion in even remote areas. Security is another important aspect of UPI. All transactions are protected by strong encryption and a UPI PIN, ensuring that money transfers remain safe and confidential. Many apps provide real-time notifications, transaction history, and dispute resolution options, giving users full control and transparency over their finances. This combination of safety, speed, and convenience has made UPI a trusted platform for both everyday users and businesses.

UPI is not only transforming payments for individuals but also for businesses and institutions. Companies use UPI for receiving salaries, fees, or donations, while government initiatives often promote UPI to distribute subsidies and financial aid directly to citizens. Its low cost, fast processing, and interoperability across banks make it an efficient alternative to cash and traditional banking methods. UPI has changed the digital payment landscape by offering an easy, fast, and secure way to transfer money. It reduces dependence on cash, enhances financial inclusion, and supports a cashless economy. By making transactions instantaneous and convenient, UPI empowers individuals and businesses alike, making digital banking an integral part of daily life.

6.10 Safe Deposit Lockers :

Safe deposit lockers are one of the most reliable services offered by banks to help customers protect their valuables. Imagine a place where your important documents, family heirlooms, or precious jewelry can be stored securely, far from the risks of theft, fire, or natural disasters. That place is the bank's safe deposit locker. These lockers are essentially private storage compartments inside the bank's vault, accessible only to the customer and bank officials under strict security procedures.

When someone rents a locker, they are assigned a unique compartment that can only be opened with their key and, in some banks, a second key held by the bank. This dual-control system ensures that even if one key is lost, unauthorized access is impossible. The process to rent a locker typically involves verification of identity and signing a formal agreement with the bank. Customers can choose the size of the locker based on what they intend to store. Smaller lockers are perfect for documents and jewelry, while larger lockers can hold valuable items such as gold, rare coins, or multiple sets of important papers.

One of the most significant aspects of a safe deposit locker is its sense of security. Unlike storing valuables at home, where theft, misplacement, or fire can be a real concern, a bank locker provides a controlled environment with 24/7 surveillance, alarms, and trained personnel. For instance, a family might store their property papers, original certificates, and heirloom jewelry in a locker, knowing that these items are safe even when they are away from home. Similarly, a small business owner could use a locker to store essential contracts or financial documents that are crucial for operations, ensuring they remain protected and organized, Access to lockers is generally restricted to bank hours, and customers may need to book appointments for visits. This controlled access might seem limiting at first, but it adds an extra layer of safety. Some banks also offer locker insurance for valuable items, which can cover losses due to unforeseen incidents, giving customers added peace of mind.

Safe deposit lockers are more than just secure storage; they offer convenience and trust. For many families, a locker becomes a central place for preserving memories and wealth, while for businesses, it serves as a secure hub for critical assets. It is this combination of protection, reliability, and assurance that makes safe deposit lockers an indispensable service in modern banking.

Safe deposit lockers go beyond being a simple facility. They act as a secure, organized, and reliable home for valuables that are difficult to replace. By providing a controlled environment, modern security measures, and optional insurance, banks ensure that customers can protect their most precious items without worry. A safe deposit locker gives peace of mind, knowing that treasures, memories, and essential documents are safeguarded under professional supervision.

6.11 Customer Care & grievance redressal :

Customer care and grievance redressal form the backbone of modern banking services, ensuring that customers feel valued, supported, and confident while using financial products. Banks are not just institutions for holding deposits or providing loans; they are service providers, and effective communication with customers is essential. Customer care involves assisting clients with queries, guiding them through banking procedures, providing information about products, and offering solutions to routine issues. Grievance redressal complements this by addressing complaints and resolving problems that may arise during interactions with the bank, thereby maintaining trust and transparency. A typical banking customer may face a variety of issues, such as delays in fund transfers, errors in account statements, failed transactions, or difficulties in using digital platforms like mobile banking or UPI. Efficient customer care ensures that these problems are addressed promptly. Banks offer multiple channels for assistance, including toll-free helplines, email support, chatbots, mobile banking applications, and in-branch service desks. These channels are designed to provide timely responses and clear guidance, making it easier for customers to navigate complex banking processes. For example, if a customer faces an unsuccessful online transfer, customer care executives can track the transaction and provide immediate clarification, reducing stress and preventing financial loss.

Grievance redressal in banking is a structured process that ensures complaints are not ignored. Most banks have dedicated grievance cells and officers responsible for investigating complaints, coordinating with relevant departments, and providing resolutions within a stipulated time frame. Customers can lodge complaints about issues such as unauthorized transactions, delayed cheque clearances, loan application problems, or unsatisfactory service at a branch. Once a complaint is registered, the bank assigns it a unique reference number for tracking, allowing customers to follow up on the status of their grievance. This system enhances accountability and reinforces customer confidence in the bank.

In addition to addressing individual complaints, banks analyze trends in grievances to identify recurring problems and improve their services. Feedback collected through customer care and grievance redressal channels helps banks optimize processes, upgrade digital platforms, and design more user-friendly products. Proactive measures, such as notifying customers of delays, providing educational guides for digital services, and simplifying complaint submission, further strengthen the customer experience. A well-functioning customer care and grievance redressal system also contributes to regulatory compliance. Banking authorities require institutions to maintain transparent complaint handling mechanisms and report unresolved cases within specified timelines. By adhering to these standards, banks not only protect customer rights but also uphold the integrity of the financial system.

Thus, customer care and grievance redressal are essential pillars of banking services. They ensure that customers receive timely support, solutions to their problems, and a sense of trust in the institution. Effective communication, structured complaint management, and proactive service improvements enhance customer satisfaction and loyalty. By prioritizing customer care, banks can build long-term relationships, strengthen their reputation, and foster a culture of accountability and transparency in the financial sector.

6.12 Exercise :

Q.1 Multiple Choice Questions (MCQS)

1) Which of the folowing is a feature of debit cards?

   a) Borrowing money from the bank

   b) Spending only available account balance

   c) Paying interest on purchases

   d) Unlimited credit limit

   Answer: b) Spending only available account balance

2) IMPS stands for

   a) Immediate Money Payment System

   b) Instant Money Processing Service

   c) Immediate Payment Service

   d) Instant Payment Solution

   Answer: c) Immediate Payment Service

3) A prepaid card is

   a) Linked to a savings account

   b) Loaded with money in advance

   c) A type of credit card

   d) Only used for ATM withdrawals

   Answer: b) Loaded with money in advance

4) UPI allows

   a) Cash withdrawal only

   b) Digital fund transfer between accounts instantly

   c) Checking account statements offline

   d) Opening new bank accounts

   Answer: b) Digital fund transfer between accounts instantly

5) Which of the following is a key feature of mobile banking apps?

   a) Providing loans without verification

   b) Managing accounts and transactions through smartphones

   c) Offering unlimited credit

   d) Replacing debit cards

   Answer: b) Managing accounts and transactions through smartphones

6) Safe deposit lockers are primarily used for

   a) Storing cash for daily use

   b) Keeping valuable items and documents secure

   c) Paying bills digitally

   d) Transferring funds

   Answer: b) Keeping valuable items and documents secure

7) Customer grievance redressal helps

   a) Increase bank revenue only

   b) Track customer complaints and resolve issues

   c) Issue more debit cards

   d) None of the above

   Answer: b) Track customer complaints and resolve issues

8) Credit cardholders must pay interest

   a) On the total credit limit

   b) Only if the balance is not cleared within the grace period

   c) Every month regardless of payment

   d) On ATM withdrawals only

   Answer: b) Only if the balance is not cleared within the grace period

9) Which of the following ensures security for e-wallets?

   a) PIN and password protection b) Biometric authentication

   c) Encryption of transactions d) All of the above

   Answer: d) All of the above

10) Which is NOT a function of ATM cards?

   a) Cash withdrawals

   b) Balance inquiries

   c) Borrowing money from the bank

   d) Mini statements

   Answer: c) Borrowing money from the bank

Q.2 Give answers of the following:

1) Define debit card and explain how it is different from a credit card.

2) What is a prepaid card, and what are its main advantages?

3) Explain the purpose of ATM cards in modern banking.

4) Describe the key features of mobile banking.

5) What is an e-wallet, and how does it facilitate digital payments?

6) Discuss the advantages and security features of credit cards in detail.

7) Explain the working and benefits of IMPS and UPI in digital banking.

8) Describe safe deposit lockers and their role in banking security.
9) Analyze the importance of customer care and grievance redressal in maintaining customer"trust.
10) Discuss the role of digital banking apps in promoting cashless transactions.

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Unit - 7
Negotiable Instruments

7.1 Introduction

7.2 Characteristics of Negotiable Instruments

7.3 Importance of Negotiable Instruments

7.4 Parties to a Cheque (drawer, drawee, payee)

7.5 Dishonor of Cheque and Penalties

7.6 Endorsement of Cheque (types of endorsements)

7.7 Promissory Notes and Bills of Exchange

7.8 Role of Negotiable Instruments in Trade

7.9 Conclusion

Exercise

7.1 Introduction to Negotiable Instruments :

A negotiable instrument is a written document that guarantees the payment of a fixed sum of money, either on demand or at a future date, and is transferable from one person to another. Negotiable instruments are an essential part of modern commercial and financial systems because they facilitate secure, efficient, and documented transfer of money without physical currency. They serve as evidence of debt and a medium of exchange in trade transactions.

The concept originates from commercial practices in the Middle Ages and has been formalized under law in many countries. In India, negotiable instruments are governed by the Negotiable Instruments Act, 1881, which defines, regulates, and provides legal remedies for issues arising from such instruments.

Negotiable instruments are widely used in daily life and business. For example:

- Cheques for making payments through banks,
- Promissory notes as formal promises to pay back loans,
- Bills of exchange to settle commercial debts.

These instruments make trade smoother by providing transferable rights to payment and reducing the need for cash transactions. They also help build credit systems because parties can rely on the instrument's promise or order for payment.

7.2 Characteristics of Negotiable Instruments :

Negotiable instruments have various distinct features that give them legal and commercial utility:

a. Transferability

The most important characteristic of a negotiable instrument is that it is transferable. It can be transferred from one person to another either by delivery (for bearer instruments) or by endorsement and delivery (for order instruments). The transfer gives the new holder the right to receive money.

This transferability increases liquidity, meaning holders can quickly convert the instrument into money or use it to settle debts.

b. Unconditional Promise or Order

A negotiable instrument contains an unconditional promise (in promissory notes) or an unconditional order (in cheques and bills of exchange) to pay money. This means the payment must be made without the requirement of any conditions being fulfilled first. For example, a cheque that states "pay the bearer ?10,000" is clear and doesn't depend on any external event.

c. Written Form

Negotiable instruments must be in writing. Oral promises or exchanges cannot be considered negotiable instruments because they lack a permanent form. The writing provides evidence of the transaction and its terms.

d. Signed by the Maker/Drawer

The signature of the maker (in a promissory note) or the drawer (in a cheque or bill of exchange) is essential for validity. The signature confirms the maker's or drawer's intention to be legally bound by the instrument. Without a valid signature, the instrument is void and cannot be enforced.

e. Specific Sum of Money

The amount to be paid must be definite and stated on the face of the instrument. Negotiable instruments cannot contain variable amounts. If the sum is unclear or open-ended, the instrument loses its negotiable character.

f. Payable on Demand or at a Future Date

Negotiable instruments specify whether payment must be made on demand (e.g., cheques usually on demand) or at a fixed or determinable future date (e.g., bills of exchange or promissory notes).

g. Payable to Order or Bearer

A negotiable instrument is typically payable to the order of a specific person or to the bearer (the person holding it). This characteristic makes instruments highly transferable. When payable to bearer, delivery alone transfers the right to payment; when payable to order, endorsement and delivery are required.

7.3 Importance of Negotiable Instruments :

Negotiable instruments play a crucial role in the modern economic and commercial system. They provide a secure, convenient, and legally recognized method of making payments and extending credit. In the absence of negotiable instruments, trade and commerce would largely depend on cash transactions, which are risky, inconvenient, and inefficient. The importance of negotiable instruments can be explained in detail as follows:

1. Substitute for Cash

One of the most important advantages of negotiable instruments is that they act as a substitute for cash. Carrying large amounts of cash involves the risk of theft, loss, and misuse. Cheques, bills of exchange, and promissory notes eliminate this risk by allowing payments to be made through written instruments. This ensures safety and convenience in financial transactions.

2. Facilitates Smooth Trade and Commerce

Negotiable instruments make buying and selling of goods easier by

providing reliable methods of payment. They allow businesses to settle transactions efficiently without immediate cash. As a result, trade flows smoothly and businesses can focus on production and distribution rather than payment issues.

3. **Provides Credit Facility**

Negotiable instruments play a key role in providing credit. Bills of exchange and promissory notes enable traders to buy goods on credit and pay later. This helps businesses maintain working capital and manage cash flow effectively. Credit facilities are especially important for small and medium enterprises.

4. **Easy Transferability of Funds**

Negotiable instruments are transferable by endorsement and delivery. This feature allows one person to transfer their right to receive money to another person. As a result, negotiable instruments function almost like money and help in the circulation of funds within the economy.

5. **Legal Security and Protection**

Negotiable instruments are governed by law, such as the Negotiable Instruments Act, 1881. If an instrument is dishonoured, the holder can take legal action against the defaulter. This legal protection increases trust and confidence among parties and ensures accountability.

6. **Encourages Banking Habits**

The use of cheques promotes banking habits among individuals and businesses. People are encouraged to open bank accounts and use banking services regularly. This strengthens the banking system and supports financial inclusion and economic growth.

7. **Acts as Evidence of Debt and Transaction**

Negotiable instruments serve as written proof of debt and financial transactions. They clearly mention the amount, parties involved, date, and terms of payment. This helps in maintaining proper financial records and resolving disputes, if any.

8. Saves Time and Cost

Cash transactions involve costs related to handling, storage, transportation, and security. Negotiable instruments reduce these costs. Payments can be made easily and quickly through banks, saving time and money for individuals and businesses.

9. Promotes Trust and Creditworthiness

Regular use of negotiable instruments helps individuals and businesses build a reputation for honesty and financial discipline. A good track record of honouring cheques and bills improves creditworthiness and makes it easier to obtain loans and trade credit.

10. Facilitates International Trade

In international trade, negotiable instruments such as bills of exchange are widely used to settle cross-border transactions. They help exporters receive payment and importers make payment according to agreed terms. This reduces risk and promotes global trade.

11. Helps in Economic Development

By promoting cashless transactions, credit flow, and smooth trade, negotiable instruments contribute to overall economic development. They support business expansion, employment generation, and efficient financial management.

7.4 Parties to a Cheque :

A cheque is a negotiable instrument drawn by one person directing a bank to pay a certain amount of money to another person. Every cheque involves three main parties:

a. Drawer

The drawer is the person who writes and signs the cheque. The drawer must have an account with the bank and instruct the bank to pay a specific amount from their account. The drawer is responsible for ensuring sufficient funds are available. Example- If Mr. A writes a cheque to Mr. B, Mr. A is the drawer.

b. Drawee

The drawee is the bank that receives the instruction (from the drawer) to pay a certain amount. The bank verifies if the drawer's account can cover the payment and then honours the cheque if all conditions are satisfied. Example- If Mr. A's bank is the State Bank of India, then SBI is the drawee.

c. Payee

The payee is the person or entity to whom the payment is to be made. The payee can be an individual, a company, or an organization. The payee may deposit or cash the cheque. Example- If Mr. B receives the cheque, then Mr. B is the payee.

Apart from these, there may be endorsees (people who receive the cheque by endorsement) and collecting banks (the bank that collects the cheque for the payee). In complex trade transactions, multiple parties may appear due to endorsements.

7.5 Dishonor of Cheque and Penalties :

What is Dishonor of a Cheque?

A cheque is said to be dishonored or bounced when the drawee bank refuses to make payment of the cheque amount to the payee when presented for clearing. Dishonor can occur for several reasons.

Common Reasons for Dishonor of a Cheque

A **cheque** may be dishonored when the bank refuses to make payment upon presentation. Dishonor can occur due to errors, legal issues, or instructions from the drawer. The most common reasons are:

1. Insufficient Funds

This is the most frequent reason for cheque dishonor. If the drawer's bank account does not have enough balance to cover the amount specified in the cheque, the bank will refuse payment.

Example: A cheque of ₹ 50,000 is drawn, but the account balance is only ₹ 30,000. The bank will dishonor the cheque.

2. **Signature Mismatch**

The signature on the cheque must exactly match the signature recorded with the bank. If there is any discrepancy, the bank will not honor the cheque.

Example: If the drawer signs as "R. Sharma" but the bank has "R. Sharm," the cheque may be dishonored.

3. **Expired Validity (Stale Cheque)**

A cheque is typically valid for **three months** from the date of issue. After this period, it becomes stale, and banks usually refuse payment.

Example: A cheque dated 1st January will become stale after 31st March and may be dishonored if presented later.

4. **Account Closed**

If the drawer's bank account has been closed before the cheque is presented, the bank cannot honor the cheque.

Example: The drawer closes the account after issuing the cheque. The payee presents it to the bank later, and the cheque will be dishonored.

5. **Stop Payment Instruction**

The drawer may instruct the bank **not to pay a** specific cheque. In such cases, even if funds are available, the bank will dishonor the cheque.

Example: A cheque issued to a supplier may be stopped due to a dispute over goods delivered.

6. **Technical Errors**

A cheque can also be dishonoured due to technical issues such as:

- Damaged or torn cheque
- Mismatch between the amount in words and figures
- Overwriting or corrections without proper authentication
- Wrong date, unclear signature, or incomplete details

Example: A cheque states ?10,000 in figures but ?1,000 in words; the bank will dishonour it.

7. **Cheque Return Memo**

   Whenever a cheque is dishonored, the bank issues a **cheque return memo** specifying the reason for dishonor. This memo is handed over to the payee as proof and may be used for legal action under **Section 138 of the Negotiable Instruments Act, 1881.**

Legal Consequences

Under Indian law, dishonor of a cheque due to insufficient funds or exceeding the arranged overdraft is a criminal offence under Section 138 of the Negotiable Instruments Act, 1881.

To bring a case under Section 138, the following legal steps must be followed:

1. Present the cheque within its validity (usually 3 months).
2. The cheque must be dishonored due to insufficient funds.
3. The payee must send a written demand notice to the drawer within 30 days from the date of the dishonor notice, demanding payment of the cheque amount.
4. The drawer has 15 days from receipt of the notice to make payment.
5. If payment is not made, the payee can file a complaint within 30 days of the notice period's expiry.

Penalties

If convicted under Section 138:

- The drawer may face imprisonment of up to two years.
- A fine up to twice the amount of the cheque may be imposed.
- The court may order both imprisonment and a fine.

Apart from criminal penalties, the payee may also pursue a civil suit to recover the cheque amount.

Courts consider various factors while determining punishment, such as the amount involved and whether it was a first-time offence.

In some cases, courts encourage compounding (settlement) between parties, and if the payment is made during proceedings, criminal liability may not be pursued further.

Example cases:

- A High Court upheld a 6-month jail sentence for cheque bounce where the drawer failed to repay a loan.
- The Supreme Court has ruled that if parties settle, the drawer may avoid jail time.

7.6 Endorsement of Cheque (Types of Endorsements) :

Endorsement is the act of signing a cheque by the payee or holder so that it can be transferred to another party. Endorsement changes the payee and moves the right to payment to a new person.

a. Blank Endorsement

A blank endorsement is where the payee simply signs on the back of the cheque without specifying a new payee. This effectively converts the cheque into a bearer instrument, meaning whoever holds the cheque can cash it. It is one type of important endorsement because it is found in major cases of endorsement.

Example:

If Mr. B writes his signature on the back of the cheque and hands it to Mr. C, then Mr. C (or anyone holding it) can cash it.

b. Full (Special) Endorsement

In a full endorsement, the payee signs the cheque and writes the name of a specific person to whom the cheque is to be paid. This new person then becomes the payee.

Example:

"Pay to Mr. C, signed by Mr. B.

c. Restrictive Endorsement

Here, the cheque's use is restricted to a specific purpose, most

commonly for deposit only, meaning the cheque must be deposited into a bank account and cannot be cashed directly. It is specifically used in business, when the business owner or party wants to pay to specific persons.

Example:

"Pay to Bank X for account credit of Mr. C."

d. Conditional Endorsement

The endorsement is subject to a condition. However, such endorsements are uncommon as negotiable instruments are generally meant to be free of conditions.

Example:

"Pay to Mr. C if goods are delivered."

7.7 Promissory notes and bills of exchange :

Both promissory notes and bills of exchange are negotiable instruments with distinct features.

a. Promissory Note

A promissory note is a written, signed promise by one person (called the maker) to pay a certain sum of money to another (the payee) either on demand or at a specific future date.

Key features:

- Involves two parties -maker and payee.
- Represents a promise to pay.
- Used for personal loans, commercial obligations, etc.

Example:

"I, Mr. X, promise to pay Mr. Y ₹ 50,000 on March 1, 2026."

This note is both evidence of debt and a commitment to pay.

b. Bill of Exchange

A bill of exchange is a written order by one person (the drawer) to

another (the drawee) directing the drawee to pay a fixed sum to a third person (the payee) on demand or at a future date.

Key features:

- Involves three parties: drawer, drawee, and payee.
- Represents an order to pay (not a promise).
- Commonly used in trade, especially international trade.

Example:

"Pay to Mr. Z ₹ 1,00,000 on 90 days from date, Drawer: Mr. A; Drawee: Bank B."

A bill of exchange is typically used when goods are shipped internationally; the exporter (drawer) draws a bill payable by the importer's bank (drawee) to the exporter (payee).

Difference Between Promissory Notes and Bills of Exchange

Basis	Promissory Note	Bill of Exchange
Meaning	It is a written promise to pay a certain sum of money.	It is a written order to pay a certain sum of money.
Nature	It Contains a promise to pay.	It Contains an order to pay.
Parties Involved	It involves Two parties Maker and Payee.	It involves Three parties Drawer, Drawee, and Payee.
Acceptance	No acceptance is required.	Acceptance by the drawee is compulsory.
Drawer / Maker	Maker is the person who promises to pay.	Drawer is the person who orders payment.
Payee	Person to whom payment is promised.	Person to whom payment is ordered.
Liability	Maker is primarily liable.	Drawer is secondarily liable; drawee is primarily liable after acceptance.
Payable to	Payable to a certain person or order.	Payable to a certain person, order, or bearer.

Use in Trade	Commonly used for loans and personal transactions.	Widely used in business and international trade.
Example	I promise to pay ₹ 10,000 to Mr. A.	Pay ₹ 10,000 to Mr. A.

7.8 Role of negotiable instruments in trade :

Negotiable instruments are fundamental to trade, commerce, and modern financial systems. Their roles include:

a. **Facilitating Credit Transactions**

Negotiable instruments allow buyers and sellers to conduct business on credit. A supplier may accept a bill of exchange or promissory note instead of immediate cash payment, enabling smooth business operations and cash flow management. It is very useful in business because it helps in increasing sales through providing more credit to customer.

b. **Increasing Liquidity**

By enabling transferability, negotiable instruments increase liquidity. Holders can transfer instruments to others, who can then collect money when due. This helps in managing working capital.

c. **Providing Security and Trust**

Negotiable instruments are legally enforceable. Parties rely on them for secure payment because the law provides remedies in case of dishonour. This legal backing increases trust in commercial transactions.

d. **Facilitating Documentary Evidence**

Negotiable instruments provide written evidence of transactions. This documentation is useful in dispute resolution, audits, taxation, and financial record-keeping.

e. **Supporting International Trade**

In international trade, instruments like bills of exchange and letters of credit (related instruments) help settle cross-border payments, reduce risk, and ensure payment when goods are delivered as per terms.

f. Standardizing Business Transactions

Standard forms and rules for negotiable instruments help reduce ambiguity in commercial dealings, reducing disputes and misunderstandings.

7.9 Conclusion :

Negotiable instruments are indispensable to the modern financial system. They ensure safety, convenience, legal protection, and efficiency in monetary transactions. By facilitating trade, providing credit, and promoting banking practices, negotiable instruments play a vital role in the growth and stability of the economy. Understanding the common reasons for dishonour helps both drawers and payees prevent disputes. Drawers should maintain sufficient funds, sign properly, and avoid technical errors, while payees should verify cheque validity and proper details before presenting it to the bank.

Exercise :

Q.1 Multiple Choice Questions

1. A negotiable instrument is payable in:

   a) Goods b) Services

   c) Money only d) Money and goods

   Answer: c) Money only

2. Which Act governs negotiable instruments in India?

   a) Banking Regulation Act

   b) Indian Contract Act

   c) Negotiable Instruments Act, 1881

   d) Companies Act

   Answer: c) Negotiable Instruments Act, 1881

3. Which of the following is NOT a negotiable instrument?

   a) Cheque b) Promissory note

   c) Bill of exchange d) Receipt

   Answer: d) Receipt

4. The person who draws the cheque is called:

   a) Payee b) Drawee c) Drawer d) Endorser

   Answer: c) Drawer

5. In a cheque, the drawee is:

   a) The person who issues the cheque

   b) The bank

   c) The person who receives money

   d) The endorser

   Answer: b) The bank

6. Dishonor of a cheque due to insufficient funds is an offence under:

   a) Section 135 b) Section 138

   c) Section 140 d) Section 145

   Answer: b) Section 138

7. Which endorsement makes the cheque payable to bearer?

   a) Full endorsement b) Restrictive endorsement

   c) Conditional endorsement d) Blank endorsement

   Answer: d) Blank endorsement

8. "For Deposit Only" is an example of:

   a) Blank endorsement b) Conditional endorsement

   c) Restrictive endorsement d) Special endorsement

   Answer: c) Restrictive endorsement

9. How many parties are involved in a promissory note?

   a) One b) Two c) Three d) Four

   Answer: b) Two

10. A bill of exchange contains:

    a) A promise to pay b) An order to pay

    c) A request to pay d) A condition to pay

    Answer: b) An order to pay

11. Which negotiable instrument is always payable on demand?

    a) Promissory note b) Bill of exchange

    c) Cheque d) Hundis

    Answer: c) Cheque

12. Endorsement is done on the ______ of the cheque.

    a) Front b) Side c) Back d) Corner

    Answer: c) Back

13. Which of the following is NOT a reason for dishonor of cheque?

    a) Insufficient funds b) Signature mismatch

    c) Proper date d) Account closed

    Answer: c) Proper date

14. Which instrument is commonly used in international trade?

    a) Cheque b) Currency notes

    c) Bill of exchange d) Debit card

    Answer: c) Bill of exchange

15. Transfer of negotiable instrument requires:

    a) Only delivery b) Only endorsement

    c) Endorsement and/or delivery d) Registration

    Answer: c) Endorsement and/or delivery

Q.2 FILL IN THE BLANKS

1 A negotiable instrument must be in ______ form.

Answer: Written

2 A cheque is always drawn on a ______.

Answer: Bank

3 The person who receives payment is called the ______.

Answer: Payee

4. Dishonor of cheque is a punishable offence under Section ______.

Answer: 138

5. A cheque returned unpaid is said to be ______.

   Answer: Dishonored

6. The signature on a negotiable instrument is made by the ______.

   Answer: Maker / Drawer

7. A promissory note contains a ______ to pay.

   Answer: Promise

8. A bill of exchange contains an ______ to pay.

   Answer: Order

9. Blank endorsement makes the cheque payable to ______.

   Answer: Bearer

10. A cheque with alterations may be ______ by the bank.

    Answer: Dishonored

11. Negotiable instruments help reduce the use of ______.

    Answer: Cash

12. The bank issues a cheque return ______ when a cheque is dishonored.

    Answer: Memo

13. Restrictive endorsement limits the ______ of the cheque.

    Answer: Use

14. Promissory note involves ______ parties.

    Answer: Two

15. Bills of exchange help in facilitating ______ trade.

    Answer: International

Q.3 Long questions:

1. Define a negotiable instrument and explain its essential characteristics with examples.

2. Discuss the roles of the drawer, drawee, and payee in a cheque. Provide real-world examples.

3. Explain the main reasons why a cheque may be dishonored. How can dishonor lead to both civil and criminal consequences?
4. Differentiate between blank, full, restrictive, and conditional endorsements with examples.
5. Compare and contrast promissory notes and bills of exchange in terms of parties, purpose, and usage in trade.
6. Discuss the role of negotiable instruments in modern commercial transactions and why they are important for trade.
7. Explain the legal procedure and penalties for cheque dishonor under Section 138 of the Negotiable Instruments Act, 1881 (with emphasis on timelines and legal notice requirements).

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Unit - 8
Introduction to Insurance

8.1 Introduction, Meaning and Scope

8.2 Importance of Insurance

8.3 Difference between Insurance and Assurance

8.4 Contract of Insurance and its Features

8.5 Principles of Insurance

8.6 Insurance as a Tool for Social Security

Exercise

8.1 Introduction, Meaning and Scope :

Every individual is confronted with many risks in their day-to-day life. An individual or a company, however the great and genius it may be, cannot foresee everything and hence are exposed to lots of uncertainties. An individual or a company cannot proceed with so much of uncertainties in the future and thus they will have to plan and provide some sort of compensation or arrangement to cover the risk associated with their dealings. Hence the concept of insurance was introduced which can help individuals and institutions to mitigate the risks and the others can possibly have some stability in their future dealings. Majorly the risk that we talk about here is the risk of financial losses which are suffered at individual level or institutional level.

There has been a revolution in the insurance industry in India and is going to create drastic transformation, of course slowly, but it will happen. This transformation in the insurance sector is driven by various factors such as consumer psychology and changing socio-economic conditions in India. The government realised this fact sooner and took up the opportunity to choose from a larger and more competitive market so that it can provide best service to the consumers. This led to several new players in the industry which marked as a significant step taken by the government to strengthen the survival and growth of insurance sector.

The term insurance has been defined from various perspectives, among them the prominent ones are financial and legal perspective. We will discuss the term insurance from both these perspectives as both has a logical argument to support the existence of the insurance services in our country. We will discuss insurance from a legal perspective first as it is generally defined in the form of a contract or agreement between two parties protect each other's interest. Hence, an insurance is a contract by which an individual or institution receive protection or compensation against losses which they suffer from the insurance provider. Further, the contract which is entered into by both the parties is legally enforceable that spells out legal rights or duties and obligations of all the parties to the contract. In other words, insurance is defined as a devise to manage risk by paying a sum of money is a premium to the insurer with a consideration that the insurer if the insured who was paying premium occurs losses. As it is a contract consideration is one of the essential elements associated with it.

"Insurance may be defined as an agreement where the insurer agrees to pay to the other party. the insured or his beneficiary, a certain sum of money when any unforeseen situation or event takes place."

From the finance perspective, insurance focuses on an arrangement that redistributes the cost of unexpected losses from the small premium amount which are paid by the insured. Here, the insurance is taken by a person or an entity to hedge against the risk of financial loss which they may suffer in future from the property or any other asset. (Human beings are also considered as an asset as well). Thus, the term insurance is nothing but an arrangement that helps in eliminating risk and provides certainty in an uncertain transaction or dealings thereby protecting the economic value of the asset. Insurance is also seen as a mechanism that helps in reduction of the loss of an asset or a life because of any occurrence of unfortunate event. Hence, it tries to compensate the insured for the loss arising fronm risk insured against.

In a nutshell, insurance means of promise of compensation provided by insurer for the insured for any potential future losses. To refine it and make it more specific it is a promise of compensation for a specific potential future loss in exchange of periodic consideration in form of financial payments/premium. It provides financial protection by reimbursing losses during crisis.

Definitions

"Insurance is cooperative form of distributing a certain risk over a group of persons who are exposed to it"

- Ghosh and Agarwal

"Insurance is an instrument of distributing the loss of view among many"

- Disnadle

"The collective bearing of risk is insurance".

- W. Beveride ges

8.2 Importance of Insurance :

Insurance is one of the important financial institutions existing in our financial system. The major work of any financial institution is to mobilize deposits from less productive area to more productive area. The insurance companies, just like banks, does the same thing by collecting money in small amount from the savers thereby building a huge corpus of fund which are then invested two on handsome return. In the country like India, insurance plays a very significant role in mobilizing domestic savings to productive investments which in turn provides so many advantages which are discussed below:

1. **Financial Stability**

   Insurance companies as one of the important financial institutions generate funds by collecting premium. These funds so collected are then invested in various securities and industries. By this way the industrial development happens smoothly because they get continuous investment from various financial institutions and insurance is one of them. As these funds are gainfully employed by industries, they generate maximunm possible returns thereby help in developing the country. As these companies start performing, they also hire people to work for it endures helps in solving unemployment problem.

   By providing finance on a timely basis to various industries and also investing at the right time in various securities, it tries to bring financial stability as it pumps in the money when required and withdraws the investment when not needed.

2. Safety and Security

It is one of the most vital benefits of insurance as it provides safety and security against any risk. By taking insurance it provides financial support and helps in reducing uncertainties in the business environment and also in the human life. Generally, in a person's life or in business world there is always an element of risk involved because we are dealing with future activities and which is uncertain. Insurance provides a decent cover against any sudden unfortunate future events or loss.

For instance, we take life insurance because if an earning member dies in a family than they require financial security in order to survive. Same way, fire insurance is taken by business houses because they want to prevent sudden loss of stock if it catches fire in future.

3. Promoting trade and commerce

As mentioned above, insurance is one of the important financial institutions in any financial system, it provides a rather facilitates deposit mobilization by performing the task of a gap filler. Insurance company creates a pool of financial resources and then invest these accumulated funds into productive sectors. By doing this it helps in promotion of trade and commerce as the traders are looking for the investment. As these people gets the money, the economic activity starts happening quickly and thus leads to economic growth and development. In fact, it plays a vital role in sustainable development of any economy.

4. Medical support

Medical needs are one of the basic needs required for any human being. It is also rightly supported by a very prominent writer in his management theory named as, *'A.H. Maslow 's need hierarchy theory'.* We are all aware that the medical facilities are becoming expensive day by day. An average earning member is sometimes not able to bear heavy medical expenses in case of any critical illness. At this point a decent medical insurance is considered vital in managing risk of health. Medical insurance can provide protection against any unfortunate disease or illness which can happen to anyone unexpectedly.

5. **Distribution of risk**

By taking insurance policy, any individual or a firm mitigates or distributes the risk with the insurer. By paying premium amount, the insurance company bears the risk of the insured. It is rightly said that the risk reduces when it is spread among large number of people.

8.3 Difference between Insurance and Assurance :

The terms insurance and assurance are often used interchangeably, but they have distinct meanings in the field of risk management and financial services. Insurance refers to protection against uncertain events that may or may not occur in the future, such as accidents, fire, or theft. On the other hand, assurance deals with events that are certain to happen, such as death. Both aim to provide financial security, but they differ in nature, duration, and purpose.

Basis of Difference	Insurance	Assurance
Meaning	Insurance provides protection against possible future risks or events (like fire, accident, theft).	Assurance provides protection against **certain events** that are bound to happen (like death).
Nature of Risk	Deals with uncertain risks - events that may or may not happen.	Deals with certain risks - events that will definitely happen.
Type of Contract	It is a **contract of indemnity,** meaning the insured is compensated only for the actual loss suffered.	It is a **contract of certainty,** where a fixed sum is paid on the occurrence of the insured event.
Duration	Usually for a **short period** (often one year) and needs renewal.	Usually for a **long period** or for the **entire life** of the insured.
Examples	Fire insurance, marine insurance, motor insurance, health insurance.	Life assurance (life insurance) policies.

Objective	To provide **protection and compensation** for financial loss.	To provide **financial support and certainty** to dependents upon the death of the assured.
Claim Payment	Claim is paid **only if** the insured event occurs during the policy term.	Claim is paid **either on death or on maturity** of the policy.

8.4 Contract of Insurance and its features :

A Contract of Insurance is a legal agreement between two parties the insurer (the company providing insurance) and the insured (the person or organization purchasing it). Under this contract, the insurer agrees to compensate the insured for any financial loss or damage caused by specified risks, in return for a payment called the premiun. The purpose of this contract is to provide financial protection and security against uncertain future events such as fire, accident, theft, or death. Like any other legal agreement, a contract of insurance is governed by the principles of the Indian Contract Act, 1872, and specific insurance laws.

A Contract of Insurance is built upon mutual trust and legal principles, It ensures financial protection against unexpected events while promoting honesty, fairness, and responsibility between the insurer and the insured.

Features of a Contract of Insurance

1. **Offer and Acceptance:**

   Every contract of insurance begins with an offer made by the proposer (the person seeking insurance) through a proposal form. The insurance company examines the proposal, evaluates the risk, and if satisfied, accepts it. Once the offer is accepted, the insurance contract becomes legally binding. Thus, mutual consent between both parties is essential for the contract to be valid.

2. **Consideration (Premium):**

   For an insurance contract to be valid, there must be consideration. The consideration in this case is the premium paid by the insured to the insurer. In return, the insurer promises to bear the financial losses arising from specific risks. The amount and frequency of the premium

depend on the type of policy, the risk involved, and the value of the insured item.

3. **Utmost Good Faith (Uberrimae Fidei):**

   Insurance contracts are based on the principle of utmost good faith, meaning both parties must act honestly and disclose all material facts. The insured must reveal all relevant information about the risk, such as age, health condition, previous claims, or property condition. Similarly, the insurer must clearly state all policy terms, exclusions, and benefits. Any concealment or misrepresentation can make the contract void.

4. **Insurable Interest:**

   The insured must have an insurable interest in the subject matter of the insurance, meaning they must suffer a financial loss if the insured event occurs. For example, a person can insure their own life, property, or goods, but not someone else's property. Without insurable interest, the insurance contract is not legally valid.

5. **Principle of Indemnity:**

   Most insurance contracts (except life insurance) are based on the principle of indemnity, which means the insured is compensated only for the actual amount of loss suffered. The purpose is to restore the insured to the same financial position they held before the los not to allow them to make a profit out of it.

6. **Proximate Cause (Cause Proxima):**

   This principle states that the insurer is liable only if the nearest or real cause of the loss is an insured risk under the policy. If the loss results from an uncovered cause, the insurer is not responsible for paying compensation. Thus, determining the proximate cause helps in deciding the insurer's liability.

7. **Subrogation**:

   After compensating the insured for the loss, the insurer gains the right to recover the loss amount from the third party responsible for the damage. This principle prevents the insured from claiming

compensation twice - once from the insurer and again from the wrongdoer. from claiming compensation twice

8. **Contribution:**

If the insured takes more than one policy for the same risk, all insurers are liable to share the loss proportionately. This principle of contribution ensures that the insured cannot profit by claiming the full loss amount from multiple insurers.

9. **Mitigation of Loss:**

The insured must take reasonable steps to minimize or prevent further loss or damage to the insured property after the incident occurs. The insurance contract does not encourage negligence or carelessness; the insured is expected to act as a prudent person.

10. **Legal Contract:**

A contract of insurance is a legally enforceable agreement governed by the general principles of contract law and the Insurance Act, 1938. Both parties must fulfill their obligations – failure to do so can result in legal consequences.

8.5 Principles of Insurance :

1. **Insurable interest**

Any person or institution with entering into the contract of insurance has some insurable interest on the life or property which is getting insured. This means, if the property or the life gets disturbed, it will cause damage or losses directly to him. A person who is not connected with the property which is getting disturbed does not have insurable interest with it. Thus for instance a shopkeeper has insurable interest in the stocks that he is kept in the shop. An industrialist has insurable interest in the product that he manufactures. A rickshaw driver has insurable interest in the rickshaw that he drives because it helps him on livelihood.

2. **Principle of utmost good faith**

Whenever an insurance contract is taking place, both the parties that is the insurer and the insured should disclose or reveal all the facts

connected with the insurance contract. Nondisclosure of the facts or a deliberately concealing the facts and providing wrong information will make the contract null and void. In other words, both the parties need to arrive at an agreement that if something unforeseen happens then stand by each other. For instance, while taking life insurance a smoker needs to reveal to the insurance company that he is a regular smoker before taking an insurance. If he does not reveal this fact than contract becomes void.

3. Principle of Causa Proxima

The cost of any unfortunate event or accident should be direct for which an insurance has been taken by the insurcd. In other words, the insurer will make payment to the insured only when the cause of the event is directly related to the loss. If there happens to be more than one reason or cause of loss than the nearest of the cause will be ascertained by the insurance company while making the compensation for the loss.

4. Principle of Subrogation

Subrogation means stepping into the shoes of another. This principle says that once the insurer makes the full payment of the loss of the insured, it will take the ownership of the property for insured and will enjoy complete the right of taking necessary legal steps to claim compensation from such person/s who is/are responsible for such loss. For instance, in case if the car gets destroyed totally in an accident, the insurance company will make payment of the insurance cover to the insured and then it will take the ownership and possession of the car for scrapping it or any other purpose.

5. Principle of Indemnity

Principle of indemnity specifies that the person who has suffered loss will be compensated and will be placed in the same position as he/she was before the unfortunate event took place. Generally, this principle does not properly do justice to life insurance as it is very difficult to place a family in the same position after the death of a very key earning

member of the family. While in the nonlife insurance covers the principle of indemnity can be exercised properly.

8.6 Insurance as a tool for social security

Insurance is not merely a financial product; it is an important instrument of social security. It provides protection against financial losses arising from uncertain events such as illness, accident, disability, or death. By transferring the burden of risk from individuals to insurance companies, insurance ensures economic stability, social welfare, and security for families. Thus, it acts as a safety net that safeguards individuals and society from unforeseen hardships.

Insurance plays a vital role as a tool of social security by providing protection, stability, and financial assistance to individuals and families in times of crisis. It promotes social welfare, economic growth, and national development. Hence, insurance is not only a personal safeguard but also a social necessity that contributes to building a secure and resilient society.

Insurance as a Social Security Mechanism

✓ **Protection against Financial Loss:**

Insurance provides financial protection to individuals and families when they face unexpected losses such as death of a breadwinner, property damage, or health emergencies, This prevents families from falling into poverty and helps maintain their standard of living.

✓ **Economic Stability for Families:**

In times of crisis, insurance policies such as life, health, or accident insurance help replace lost income or cover expenses. This support ensures that dependents are not left without financial means, thereby promoting family stability and social balance.

✓ **Encourages Savings and Investment:**

Life insurance, in particular, serves as both a protection and savings tool. It encourages individuals to save regularly through premium payments, which accumulate into a significant amount over time. These funds can be used for future needs such as education, retirement, or emergencies.

✓ **Support during Old Age and Disability:**

Insurance schemes like pension plans, disability insurance, and health insurance provide long-term support to individuals during old age or when they are unable to earn due to illness or disability. This promotes social security and self-reliance.

✓ **Social Welfare Programs:**

Governments and public insurance bodies use insurance schemes to extend social security benefits to weaker sections of society. Examples include Pradhan Mantri Jeevan Jyoti Bima Yojana, Ayushman Bharat, and Employees' State Insurance Scheme (ESI) in India, which offer health and life protection to low-income groups.

✓ **Reduces Burden on Government:**

By encouraging individuals to take private or public insurance coverage, the financial burden on the government to provide social relief in case of disasters, accidents, or death is reduced. This allows the government to allocate resources more efficiently.

✓ **Promotes Economic Growth:**

Insurance mobilizes savings and invests them into productive sectors such as infrastructure, industry, and healthcare. This contributes to the overall development of the economy and improves the living standards of citizens.

Exercise :

Q.1 Multiple Choice Questions

1. A contract of insurance is a legal agreement between___________.

   a) Buyer and seller   b) Banker and customer

   c) Insurer and insured   d) Principal and agent

   Answer: c) Insurer and insured

2. The consideration paid by the insured to the insurer is known as______.

   a) Interest   b) Compensation

   c) Premium   d) Claim

   Answer: c) Premium

3. Which of the following is based on the principle of utmost good faith?

   a) Sale of goods contract b) Insurance contract

   c) Employment contract d) Lease agreement

   Answer: b) Insurance contract

4. The principle of indemnity means that the insured_______________.

   a) Should make profit out of loss

   b) Will receive only the actual amount of loss

   c) Can claim double compensation

   d) Is not entitled to any claim

   Answer: b) Will receive only the actual amount of loss

5. The principle of insurable interest means_______________.

   a) The insured should have a moral interest

   b) The insured should have a financial interest in the subject matter

   c) The insured should have an emotional connection

   d) The insurer should have no interest

   Answer: b) The insured should have a financial interest in the subject matter

6. Which of the following deals with uncertain events that may or may not occur?

   a) Assurance b) Insurance

   c) Pension d) Investment

   Answer: b) Insurance

7. Which of the following deals with certain events such as death?

   a) General insurance b) Fire insurance

   c) Assurance d) Accident insurance

   Answer: c) Assurance

8. Insurance promotes social security by_____________.

   a) Increasing competition

   b) Providing financial protection and stability to individuals and families

   c) Encouraging luxurious spending

   d) Reducing employment opportunities

   Answer: b) Providing financial protection and stability to individuals and families

9. Which of the following government schemes in India provides health insurance to economically weaker sections?

   a) Ayushman Bharat

   b) Sukanya Samriddhi Yojana

   c) Pradhan Mantri Fasal Bima Yojana

   d) Atal Pension Yojana

   Answer: a) Ayushman Bharat

10. Insurance contributes to national development mainly by

   a) Increasing government subsidies

   b) Mobilizing savings and investing thcm in productive sectors

   c) Reducing industrial output

   d) Encouraging unplanned expenditure

   Answer: b) Mobilizing savings and investing them in productive sectors

Q.2 FILL IN THE BLANKS

1. The amount paid by the insured to the insurer as consideration is called________.

   Answer: Premium

2. A contract of insurance is based on the principle of__________, meaning both parties must disclose all material facts.

   Answer: Utmost good faith (Uberrimae Fidei)

3. The principle of___________ensures that the insured is compensated only for the actual loss suffered.

   Answer: Indemnity

4. Insurance provides protection against__________risks, while assurance covers__________events.

   Answer: Uncertain: Certain

5. _______________is an example of a health insurance scheme launched by the Government of India to provide medical security to low-income families.

   Answer: Ayushman Bharat

Q.3 TRUE OR FALSE

1. Assurance provides protection against uncertain events like fire or theft.
   Answer: ☐ False
   (Assurance covers certain events like death.)

2. The insured must have a financial interest in the subject matter of insurance.
   Answer: ☐ True

3. The principle of subrogation allows the insured to claim compensation twice for the same loss.
   Answer: ☐ False
   (It prevents double recovery; the insurer can recover from the responsible party.)

4. Insurance acts as a tool of social security by providing financial stability and protection against unexpected losses.
   Answer: ☐ True

5. In life insurance, the principle of indemnity applies strictly.
   Answer: ☐ False
   (Life insurance is a contract of certainty, not indemnity.)

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BBA SEMESTER-4

Banking & Insurance

BLOCK: 3

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Unit - 9
Life Insurance

9.1 Introduction

9.2 Need and Significance of Life Insurance

9.3 Various Life Insurance Policies

9.3.1 Term Insurance Policy

9.3.2 Endowment Policy

9.3.3 Money-Back Policy

9.3.4 Pension or Retirement Policy

9.3.5 Unit Linked Insurance Plans (ULIPs)

9.4 Surrender Value and Maturity Value

9.5 Policy Nomination and Assignment

9.6 Procedure for Claim Settlement

9.7 Role of LIC in India

9.8 Advantages of Life Insurance for Families

Exercise

9.1 Introduction :

Life is unpredictable by nature. Every person encounters a range of hazards, including disease, accidents, disability, and even the ultimate and irrevocable enent, regardless of their age, income, or line of work. The financial effects of these occurrences can be controlled, even though they cannot be avoided. This is the exact situation in which life insurance becomes an essential financial tool.

In essence, life insurance is a contractual arrangement whereby an insurer guarantees a person or their family financial security in feturn for a premium. Life insurance ensures a perdetermined amount upon the occurrence of an insured event, usually death or surviving to maturity, in contrast to general insurance, which only pays for

actual losses. Thus, it serves two purposes: protection and, in the case of many policies, long-term investment and savings.

There is a special place for life insurance in present-day financial planning. In addition to providing protection against unexpected income loss, it also helps with long-term capital construction, retirement planning, children's education, and wealth accumulation. For this reason, life insurance becomes a crucial part of personal financial security and risk management.

9.2 Need and Significance of Life Insurance :

What is the first thing that comes to mind when you consider your future? An income that is steady? A safe house? a quiet retirement? Imagine for a moment what would happen if the source of money abruptly disappeared.

This straightforward inquiry serves as the basis for the necessity of life insurance.

Let us investigate this in an interactive manner.

9.2.1 Why Do Individuals Need Life Insurance?

1. **Proteetion Against Financial Uncertainty**

   Assume that one person/s income provides for the entire household. How long can the family survive if that person is dealing with uncertainty? At this very moment, life insurance kicks in, guaranteeing that the family will have financial support when they need it most.

2. **Income Replacement**

   Life insurance acts as a financial substitute for the income you would have earned. The insurer pays a lump sum or periodic amount to your dependents, allowing them to continue their lifestyle with minimum disruption.

3. **Long-Term Savings and Wealth Creation**

   Many life insurance policies are not only protection-based but also **investment-oriented.** They help you save gradually and build a large corpus for future needs like

   - Children's education

- Buying a home
- Retirement planning
- Marriage expenses

4. **Encourages Habit of Systematic Saving**

What makes it so difficult for many people to consistently save money? because long-term dedication and discipline are necessary for saving. Through the requirement of regular premium payments, life insurance helps people develop financial discipline and build wealth in a planned manner.

5. **Tax Benefits**

Most life insurance prenmiums are tax deductible under Section 80C, and payouts are frequently excluded under Section 10 (10D). So, as you safeguard your family, you also reduce your tax burden.

6. **Foundation of Sound Financial Planning**

A sound financial strategy always starts with risk management, not investments. Life insurance provides a safety net that allows individuals to invest with confidence in other areas such as mutual funds, equities, enterprises, and so on.

7. **Tool for Social and Economic Security**

Life insurance does not benefit only individuals; it strengthens society as a whole.

- It reduces dependency
- Helps families avoid financial crisis
- Supports national savings
- Provides long-term funds for national development

Insurance companies invest collected premiums in government projects, infrastructure, and industries -supporting overall economic growth.

9.2.2 Why is Life Insurance Significant in today's World?

Let's relate it to the challenges of modern life.

1. Increasing life expectancy means people need more retirement funds.
2. Rising cost of education demands strong future financial planning.
3. Medical emergencies can drain savings without warning,
4. Unstable job markets increase dependence on long-term financial protection.
5. Nuclear families mean fewer earning members and more vulnerability.

Life insurance helps individuals navigate these risks confidently.

9.3 Various Life Insurance Policies :

Life insurance policies are designed to meet different financial needs, life stages, and goals of individuals. Each type of policy offers unique benefits in terms of protection, savings, and investment. The major types of life insurance policies are discussed below:

9.3.1. Term Insurance Policy

Meaning:

A term insurance policy offers life insurance for a predetermined amount of time. The nominee gets the amount guaranteed if the policyholder passes away during this time. However, unless the insurance is a return-of-premium plan, no reward is due if the insured lives out the term.

Features:

Provides maximum coverage at minimum premium. Offers pure risk protection, with no savings or investment component. Suitable for individuals seeking high coverage at an affordable cost.

Example:

If someone buys a 20-year term policy for 50 lakh, and dies within

10 years, the nominee receives 50 lakh. If the person survives 20 years, nothing is payable.

9.3.2. Endowment Policy

Meaning:

Savings and life insurance are combined in an endowment policy. Either on death within the policy period or on survival after the term is up, it pays the amount guaranteed.

Features:

Offers dual benefits-protection and savings. Provides a lump-sum maturity amount after the term ends. Suitable for long-term financial goals such as children's education or house purchase.

Example:

Ifa person buys a 15-year endowment policy for 10 lakh and survives the term, they receive the maturity amount (sum assured + bonuses). If they die during the term, their nominee receives the sum assured.

9.3.3. Money-Back Policy

Meaning:

During the policy term, a money-back policy pays out survival benefits on a regular basis. The remaining amount is paid out upon maturity or death.

Features:

- Provides regular payouts at intervals during the policy term.
- Offers both liquidity and life cover.
- If the policyholder dies during the term, the nominee receives the full sum assured, irrespective of previous payouts.

Example:

For a 20-year policy, 20% of the sum assured may be paid at the end of the 5th, 10th, and 15th years, and the remaining 40% (plus bonus) on maturity.

9.3.4. Pension or Retirement Policy

Meaning:

A pension policy (also called an annuity plan) helps individuals build a retirement corpus during their working years and provides a regular income after retirement.

Features:

- Encourages long-term savings for old age.
- Provides regular income (pension) after the policy term or upon retirement.
- Some policies offer lump-sum withdrawals and the rest as monthly or annual pension.

Example:

An individual invests ₹ 5,000 per month till age 60, and after that, receives a fixed monthly pension for life.

9.3.5. Unit Linked Insurance Plans (ULIPs)

Meaning:

ULIP combines insurance and investment. A part of the premium provides life cover, and the remaining amount is invested in equity or debt funds as chosen by the policyholder.

Features:

- Offers market-linked returns depending on fund performance.
- Provides flexibility to switch between funds (equity, debt, or balanced).
- Returns are subject to market risks but can be higher than traditional plans.
- Lock-in period is generally five years.

Example:

If someone invests ₹ 10,000 per month, ₹ 1,000 may go toward life cover, and ₹ 9,000 gets invested in market funds.

Comparison:

Policy Type	Main Purpose	Payout	Best For
Term Plan	Pure protection	Only on death	Families needing high coverage
Endowment	Savings + insurance	On death or maturity	Safe, long-term savers
Money-Back	Periodic income	Regular survival benefits + maturity	People needing liquidity
Pension Plan	Retirement income	Monthly/annual annuity	Retirement planners
ULIPs	Market-linked wealth	Depends on fund performance	Investors seeking higher returns

9.4 Surrender Value and Maturity Value :

Policies for life insurance not only provide protection but also serve as a way to save money. During the policy period, the insured person may decide to discontinue the policy or complete the term in both cases, there are specific financial values attached. These are known as **Surrender Value** and **Maturity Value.**

1. Surrender Value

Meaning:

The amount that the insurance company will pay the policyholder if they choose to cancel their policy before it matures is known as the surrender value. It stands for the policy's worth at the moment of surrender.

Key Points:

- The policy must have been in force for a minimum period (usually three years) before it can acquire any surrender value.
- Surrender value is always less than the total premiums paid, as the insurer deducts charges for risk coverage and administrative costs.
- The longer the policy is continued before surrender, the higher the surrender value.

Types of Surrender Value:

1. Guaranteed Surrender Value: This is the minimum value the insurer must pay. It is usually a fixed percentage (for example, 30% of the total premiums paid excluding the first-year premium).
2. Special Surrender Value: This value is generally higher than the guaranteed surrender value and is determined based on factors such as policy duration, number of premiunms paid, and bonuses accumulated.

Example:

If a policyholder has paid ₹ 60,000 in premiums over four years, and the guaranteed surrender value is 30%, the surrender value will be ₹ 18,000 (30% of ₹ 60,000 excluding the first-year Premium).

In Short: Surrender Value = (Total Premiums Paid - First-Year Premium) × Surrender Value Percentage.

Maturity Value

Meaning:

Assuming the insured individual lives out the policy duration, the maturity value is the entire amount that will be paid to the policyholder at the conclusion of the policy term.

Key Points:

It includes the sum assured plus bonus (if applicable) declared by the insurance company.

It represents the final return on the savings element of the policy.

Maturity proceeds are generally tax-free under Section 10(10D) of the Income Tax Act (subject to conditions).

Example:

If the sum assured is ₹ 5,00,000 and the accumulated bonuses amount to ₹ 1,00,000, the Maturity Value = Sum Assured + Bonus

(Simple Reversionary Bonus + Final Additional"maturity value will be ₹ 6,00,00 Bonus, if any)

❑ **Difference Between Surrender Value and Maturity Value**

Basis	**Surrender Value**	**Maturity Value**
Meaning	Amount paid when policy term is discontinued early	Amount paid when policy term is completed
Amount	Lower	Higher
Bonuses	Only a part may be paid	Full bonuses added
Purpose	Early exit due to needs	Reward for completing the term
When available	After minimum period	At the end of policy term
Suitable for	Emergency situations	Long-term financial planning

9.5 Policy Nomination and Assignment :

Life insurance is not just about securing one's own life; it is also about ensuring that the right person receives the benefits when something happens to the policyholder. Two important concepts that help achieve this are Nomination and Assignment. Both define who can receive or hold rights over the policy, but they serve different purposes.

1. Policy Nomination

Meaning:

The process of designating a person (referred to as a nominee) to receive the insurance funds in the event that the life insured passes away during the policy's term. It ensures that the claim amount reaches the intended person without legal complications.

Legal Basis: Section **39** of the **Insurance Act, 1938** deals with nomination.

Key Features:

- The policyholder can nominate one or more persons at the time of taking the policy or anytime later.
- The nominee receives the death claim amount if the policyholder dies during the term.

- The nominee can be a family member, relative, or any trusted person.
- The policyholder can change or cancel the nomination at any time during the policy period by submitting a written request to the insurance company.
- Nomination does not transfer ownership of the policy it only gives the right to receive money.

Example:

If Mr. Ravi takes a policy of ₹ 10 lakh and nominates his wife, she will receive ₹ 10 lakh in case of his death during the policy term.

Types of Nominees:

1. **Beneficial Nominee:** Spouse, parents, or children they automatically receive and retain the benefits.
2. **Minor Nominee:** If the nominee is below 18 years, a guardian must be appointed to receive the claim.
3. **Multiple Nominees:** The policyholder can nominate more than one person and specify the share of each.

Nomination = Right to receive the policy money after the policyholder's death.

2. Policy Assignment

Meaning:

Assignment means transferring the ownership (rights, title, and interest) of the policy from the policyholder (assignor) to another person (assignee). Once assigned, the assignee becomes the owner of the policy and is entitled to all its benefits.

Legal Basis: Section **38** of the **Insurance Act, 1938** governs policy assignment.

Key Features:

- Assignment can be done wholly or partially, depending on the policyholder 's intention.

- The transfer must be made in writing through an endorscment on the policy or a separate deed of assignment.
- Once the assignment is complete, the assignee becomes the new owner of the policy.
- The insurer must be notified in writing for the assignment to take effect.

Types of Assignment:

1. **Absolute Assignment:**
   - Complete transfer of rights from assignor to assignee.
   - Commonly done as a gift or for love and affection.
   - Example: A husband assigns his policy to his wife.
2. **Conditional Assignment:**
   - Transfer is made with certain conditions; the rights revert to the policyholder if conditions are not fulfilled.
   - Commonly done as loan security with banks or financial institutions.

Example: If Mr. Rohan assigns his 5 lakh policy to a bank as loan security, the bank will receive the amount if he dies before repaying the loan. If he repays the loan, the policy rights return to him.

Difference Between Nomination and Assignment

Basis	Nomination	Assignment
Meaning	Appointing a beneficiary	Transferring ownership
Rights	Nominee is only a receiver	Assignee becomes owner
Purpose	To receive death benefits	Loan, gift, collateral
Created Under	Section 39	Section 38
Changeability	Easy to change	Difficult once done
Effect on Policy	Policyholder still owns it	Ownership shifts fully/partially
Who Can Be?	Mostly family	Any person or institution

9.6 Procedure for Claim Settlement :

When a life insurance policy reaches its end-either through maturity or the unfortunate event of the policyholder's death-the next crucial step is claim settlement. Claim settlement ensures that the benefits promised by the insurer actually reach the rightful person. To understand this clearly, let us break the process into simple, interactive steps.

9.6.1 Types of Claims in Life Insurance

Before learning the procedure, you must know the types of claims:

1. Death Claim

Filed when the policyholder dies during the policy term.

2. Maturity Claim

Filed when the policyholder survives the policy term and the policy matures.

3. Rider Claims

Filed for additional covers like:

- Accidental death
- Disability benefit
- Critical illness
- Hospital cash benefit

Each claim type requires specific documents and procedures, but the process remains broadly similar.

9.6.2 General Procedure for Claim Settlement

Let's understand the step-by-step process with clarity.

Step 1: Intimation of Claim (Notify the Insurer)

The first step is to inform the insurance conpany about the claim.

For death claims:

- Family members
- Nominee

- Employer (if group insurance)
- Hospital authorities (in some cases)

For maturity claims:

- Insurer usually sends a reminder to the policyholder months before maturity.

Step 2: Submission of Required Documents

The nominee or policyholder must submit the required documents.

Documents for Death Claim:

1. Claim form (Form A / Claim Intimation Form)
2. Original policy document
3. Death Certificate (mandatory)
4. Age proof of the deceased
5. Identity and address proof of the nominee
6. Medical records (if death occurred in hospital)
7. Post-mortem report (in accidental or suspicious deaths)
8. FIR & Police Report (in case of accidents)
9. Discharge form signed by nominee

Documents for Maturity Claim:

1. Original policy document
2. ldentity proof
3. Bank details (cancelled cheque)
4. Filled discharge form

The insurer may ask for additional documents depending on the case.

Step 3: Verification of Claim by the Insurer

Once documents are subnmitted, the insurer verifies:

- The authenticity of the claim
- Whether the policy was active

- Premiums were paid on time
- Nominee details
- Nature of death (natural/accidental)
- Any possible fraud

Step 4: Investigation (If Needed)

Not all claims require investigation. Investigation is carried out only in cases like:

- Early Claim (death occurs within first 2 years of policy)
- Suspicious or unnatural death
- Inconsistent medical records
- Possible misrepresentation

Insurers hire claim investigators or third-party assessors for this.

Step 5: Approval or Rejection of the Claim

After verification, the insurer makes a decision.

Approval:

If everything is correct, the insurer approves the claim.

Rejection:

A claim may be rejected due to:

- Policy lapsed
- Fraud or misrepresentation
- Non-disclosure of medical conditions
- Incorrect documents
- Nominee not legally valid

Important:

IRDAI regulations allow the claimant to appeal if the insurer rejccts the claim unfairly.

Step 6: Payment of Claim Amount

Once approved, payment is made through:

- NEFT/bank transfer
- Cheque
- Direct credit for group policies

For Death Claims:

- Amount is paid to the **nominee or legal heir.**

For Maturity Claims:

Amount is paid directly to the **policyholder** along with bonuses.

IRDAI mandates insurers to settle claims:

- Within 30 days if no investigation is required
- Within 90 days if investigation is required

9.6.3. Common Reasons for Claim Delays

- Missing or incorrect documents
- Mismatch in nominee information
- Policy lapsed (premiums unpaid)
- Late intimation
- Disputes among legal heirs
- Complex accidental death investigations

Students must understand these issues because they often appear in exam questions.

9.6.4. Role of IRDAI in Claim Settlement

IRDAI ensures:

- Claim settlement is transparent
- Insurers do not delay payments
- Nominees are treated fairly
- Policyholders' rights are protected

IRDAI also requires insurers to publish:

- Claim Settlement Ratio (CSR)
- Average claim processing time

These help customers choose trustworthy insurers.

9.7 Role of LIC in India :

The growth of the insurance industry and the economy at large are significantly by the intluenced Life Insurance Corporation of India (LIC), Established in 1956 afer the nationalization of 245 private insurers, LIC has been a pillar of trust and security for Indian citizens. Its main goals are to mobilize public savings for national development and to widely distribute life insurance, particularly in rural and underdeveloped areas.

1. **Promoter of Life Insurance Awareness:** LIC has helped to popularize life insurance across urban and rural areas. It has spread awareness of the value of life insurance as a tool for savings and financial security through its extensive network of branches and agents.
2. **Provider of Financial Security:** LIC provides families with financial security against the earning member's death risk. In the event of an unforeseen circumstance, it guarantees that dependents will not experience financial hardship.
3. **Mobilization of Savings:** LIC collects small savings from individuals and invests them in various productive sectors such as housing, infrastructure, and industry, thereby supporting national development.
4. **Contribution to Economic Development:** Through its investments in public sector initiatives and government securities, LIC makes a substantial contribution to the economic development and expansion of the nation.
5. **Social Welfare Activities:** Through programs including community development, disaster relief, and scholarships, LIC actively engages in social welfare, carrying out its social duty.
6. **Employment Generation:** LIC helps to lower unemployment by directly and indirectly employing lakhs of people through its agents, employees, and various programs.

7. **Trust and Reliability:** LIC has established a solid reputation for dependability, quick claim resolution, and customer-focused support. It is now regarded as one of India's most reliable financial organizations due to its steady performance and public trust.

   In short, LIC not only provides insurance protection but also plays a key role in promoting savings, supporting development, and ensuring social and economic welfare in India.

9.8 Advantages of Life Insurance for Families :

Life insurance plays a crucial role in ensuring the financial stability and security of a family. It is not just a savings tool-it is a promise of protection and peace of mind. The following points highlight how life insurance benefits families in multiple ways:

1. **Financial Security for Dependents:** Life insurance gives the family a safety net in case the earning member passes away too soon. It makes sure that dependents may continue to pay for necessities like food, shelter, and education without experiencing an abrupt loss of income.

2. **Income Replacement:** In the event of the policyholder's death, the insurance payout serves to replace the lost income, allowing the family to continue living comfortably.

3. **Debt Repayment:** The proceeds of the insurance can be used to pay back any loans or liabilities owed by the insured, saving the family from incurring debt or losing priceless possessions.

4. **Educational Support for Children:** Securing money for children's education and future aspirations is made easier with life insurance. It guarantees that the policyholder's academic and professional goals will not be jeopardized, even if they are not present.

5. **Support During Emergencies:** In order to help with urgent financial demands or medical situations, some life insurance policies allow partial withdrawals or loans against the policy value.

6. **Savings and Investment Benefits:** Some life insurance policies

allow loans or partial withdrawals against the policy value, which can be useful in times of medical emergency or other pressing financial necessity.

7. **Tax Benefits:** Families can save money on taxes by using Section 80C of the Income Tax Act to deduct life insurance premiums and Section 10(10D) to exclude maturity or death benefits.

8. **Peace of Mind:** It is comforting and reassuring to know that one's family is financially secure. It helps the policyholder make confident life plans and lessens future worries.

life insurance is not merely a financial product-it is a family safeguard. It provides long- term protection, supports savings, and ensures that loved ones are secure even in difficult times.

Exercise :

Q.1 Answer the following questions:

1. What is the primary purpose of life insurance?
2. Define term insurance in one sentence.
3. What does a maturity value represent in a life insurance policy?
4. What is surrender value?
5. State one advantage of endowment policies.
6. What is the role of a nominee in life insurance?
7. What is meant by policy assignment?
8. Who receives the death claim amount in a life insurance policy?
9. What does ULIP stand for?
10. Why are money-back plans preferred by some policyholders?
11. What is a pension (annuity) plan in life insurance?
12. Which organization is the largest life insurer in India?
13. What is the significance of claim settlement ratio?
14. What happens when a policy is surrendered before maturity?

15. What is meant by “sum assured”?
16. Which section of the Insurance Act deals with nomination?
17. Which section of the Insurance Act deals with assignment?
18. What document is mandatory for death claim settlement?
19. Name one reason why people choose LIC.
20. What is the benefit of adding riders to a life insurance policy?
21. What does "income replacement" mean in the context of insurance?
22. What type of policy provides only risk coverage without savings?
23. What is beneficial nomination?
24. What is the main feature of money-back policies?
25. What do you understand by deferred annuity?

Q.2 Answer the following questions:

1. Explain the need and significance of life insurance in modern financial planning. How does it support the financial stability of families during uncertainty?
2. Describe in detail the various types of life insurance Policies-Term, Endowment, Money- Back, Pension Plans, and ULIPs. Highlight their features and differences.
3. What is surrender value? Discuss the types of surrender value and explain how insurers calculate it. Provide examples to illustrate your answer.
4. Define maturity value. Explain the components included in a policy's maturity payout and discuss the factors influencing the final maturity amount.
5. What is nomination in life insurance? Explain its purpose, types, procedure, and legal significance under the Insurance Act. Use suitable examples.

6. Discuss the concept of policy assignment. Explain the types of assignment, the process involved, and the implications for both assignor and assignee.

7. Outline the entire procedure for claim settlement in life insurance. Explain death claims, maturity claims, required documents, verification, investigation, and payment process.

8. Evaluate the role of LIC in India's insurance sector. Discuss its contributions toward financial security, economic development, rural outreach, and trust-building.

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Unit - 10
General Insurance

10.1 Introduction

10.2 Concept of Indemnity in General Insurance

10.3 Types of General Insurance

- 10.3.1 Fire Insurance
- 10.3.2 Marine Insurance
- 10.3.3 Motor Insurance
- 10.3.4 Agricultural & Crop Insurance
- 10.3.5 Travel Insurance
- 10.3.6 Home Insurance

10.4 Difference between Life and General Insurance

Exercise

10.1 Introduction :

In our daily life, we face many kinds of risks. These risks can be small or big-like an accident, a fire in a shop, theft in a house, damage to a car, loss of crops due to heavy rain, or even losing luggage while travelling. Such events not only cause emotional stress but also lead to financial loss. To protect people and businesses from these unexpected losses, the system of general insurance has been developed.

General insurance is a type of insurance that provides protection against financial losses caused by events other than death. Unlike life insurance, which focuses on the life of a person, general insurance covers assets, properties, liabilities, and health. Its main purpose is to make sure that people do not suffer a major financial burden when an unfortunate event happens.

The concept of general insurance works on a simple idea:

Many people pay small amounts of money (premium), and the insurance company uses this money to compensate those few who face a loss. This way, the risk of

one person is shared by many. In today's world, general insurance has become an essential part of our economic system. Businesses use it to protect their factories, vehicles, goods, and employees. Individuals use it to safeguard their homes, cars, health, and travel plans. Banks and financial institutions also depend on general insurance to reduce credit risk, secure loans, and promote economic stability.

Government initiatives, digital platforms, and increasing awareness have made general insurance more accessible and affordable. With easy online claim processes, cashless services, and customized insurance plans, people are now more confident in managing risks. As a result, the general insurance sector is growing rapidly in India and playing an important role in the financial sector.

In simple words, general insurance acts like a safety shield helping people get back on their feet when life takes an unexpected turn.

10.2 Concept of Indemnity in General Insurance :

The concept of indemnity is one of the most important principles of general insurance. The word indemnity simply means "to compensate" or "to make good the loss." In general insurance, indemnity ensures that when an insured person suffers a financial loss, the insurance company will compensate them only to the extent of the actual loss.

Meaning:

Indemnity means that the insurance company will put the insured person back in the same financial position they were in just before the loss occurred nothing more, nothing less.

This means:

- The insured should not make a profit from insurance.
- The insured should only recover the actual amount of loss.
- Insurance is not a way to earn money; it is only a protection against financial losses.

Imagine you have a shop worth ₹ 5,00,000. If a fire breaks out and causes damage worth ₹ 1,00,000, the insurance company will pay you only ₹ 1,00,000 not the full ₹ 5,00,000 and not anything extra. This is because the purpose of insurance is to cover your loss, not to give you profit.

Key Features of Indemnity:

1. **Compensation only for actual loss:** The insurer pays only the real amount of loss after proper investigation and assessment. E.g., if the loss is ₹ 30,000, you receive only ₹ 30,000, even if the policy sum insured is ₹ 1,00,000.

2. **No profit from insurance:** Insurance is not a money-making tool. It simply replaces the financial value you lost. This keeps the system fair for everyone.

3. **Applies mainly to general insurance:** Indemnity applies to fire insurance, marine insurance, motor insurance, theft insurance, etc. It does not apply to life insurance because the value of human life cannot be calculated exactly.

4. **Requires proof of loss:** The insured must show evidence of the loss bills, photos, reports, documents so the company can calculate the correct amount of compensation.

5. **Helps control moral hazard:** When no profit is possible, people are less likely to create fake losses or behave carelessly.

Importance of the Principle of Indemnity:

1. **Protects the insured from major financial loss:** Accidents, theft, fire, or natural disasters can cause heavy financial damage. Without insurance, a person or business would have to bear the entire loss alone. Indemnity makes sure that the insured does not suffer financially.

2. **Prevents the insured from making profit:** The principle ensures that insurance remains a protection tool, not a profit-making opportunity. It restricts policyholders from claiming more than the actual loss. This keeps the purpose of insurance honest and fair.

3. **Reduces moral hazard:** Moral hazard means careless or risky behaviour by insured individuals because they feel insurance will pay. Indemnity reduces such behaviour because people know they will receive only the actual loss, not extra money.

4. **Helps insurance companies maintain stability:** Insurance companies handle thousands of claims. If they had to pay extra or pay without

limits, they would face huge financial pressure. A financially strong insurer can serve customers better and remain in the market for a long time.

5. **Maintains fairness among all policyholders:** Insurance is a system where many people contribute a small premium so that a few who suffer loss can be compensated.

   If some people misuse insurance to gain profit, it would be unfair to genuine policyholders.

6. **Helps in calculating correct premiums:** Premiums are fixed based on the possible financial loss the insurer may have to pay. Because indemnity ensures payment only for actual loss, insurers can predict risk more accurately and charge fair premiums.

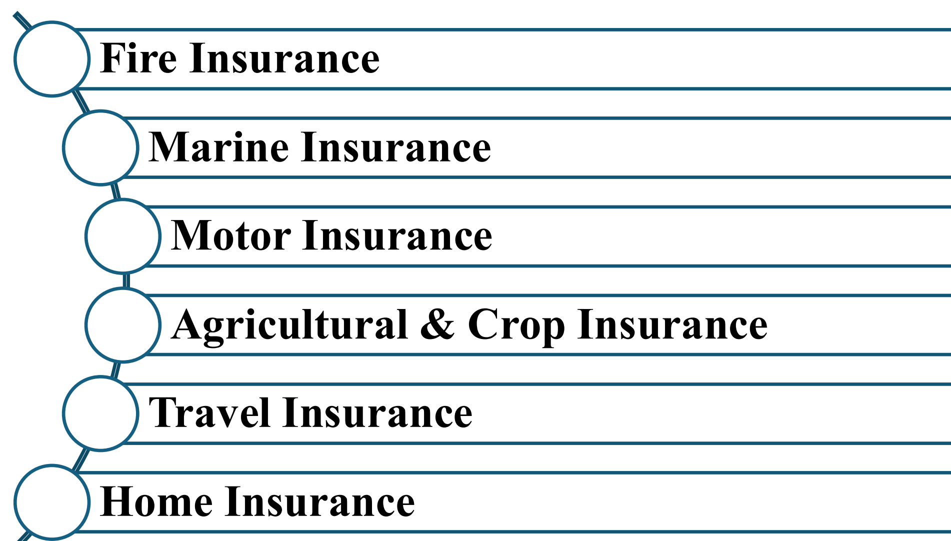
7. **Builds trust and confidence in the insurance system:** People feel safe buying insurance when they know the insurer will support them during a real loss.

8. **Essential for the smooth running of the economy:** When businesses are protected from loss, they can operate confidently and efficiently. Indemnity helps maintain business continuity even after disasters.

10.3 Types of General Insurance :

General insurance plays an important role in protecting individuals, businesses, and society from unexpected financial losses. Since different types of risks exist in daily life such as accidents, fire, theft, illness, travel problems, or damage to property the insurance industry offers various types of general insurance policies to cover each of these specific risks.

Each type of insurance focuses on a different area of protection. For example, motor insurance protects vehicles from damage or accidents, fire insurance protects property from fire-related loss, health insurance covers medical expenses, and marine insurance protects goods that are transported by ships, air, or land. These different policies ensure that whatever the risk may be, there is a suitable insurance solution available.



10.3.1 Fire Insurance

Meaning:

Fire insurance is a contract where the insurance company promises to compensate the policyholder for any loss or damage caused by fire. It protects homes, shops, factories, offices, warehouses, and other properties from unexpected fire accidents. In simple words, fire insurance acts like a financial safety shield. If a sudden fire destroys or damages your property, the insurance company will help you recover from the financial loss. It ensures that the policyholder does not have to bear the entire burden of the damage alone.

Purpose:

The main purpose of fire insurance is to reduce the economic hardship caused by fire accidents. Fire can happen due to electrical faults, short circuits, explosions, gas leakage, lightning, or even human error. Such incidents can cause heavy loss within minutes. Fire insurance makes sure that the person or business affected by the fire can repair, rebuild, or replace the damaged property without suffering huge financial pressure. Another purpose is to support business continuity so that factories, shops, and companies can restart their operations quickly after a fire, instead of shutting down permanently.

Importance:

1. **Protects against heavy financial loss:** Fire accidents can destroy property, goods, machinery, and buildings within minutes. Without insurance, the entire financial burden falls on the owner, which can be very difficult to manage. Fire insurance provides compensation for the loss, helping individuals and businesses recover without facing extreme financial stress.

2. **Ensures business continuity:** For businesses, a fire accident can stop operations completely. Machinery may get damaged, stock may burn, and the work area may become unsafe. Fire insurance ensures that the business receives financial support to repair the damage, replace assets, and restart operations. This prevents long-term shutdown and protects the future of the business.

3. **Helps maintain economic stability:** When many individuals and businesses are insured, the overall economy becomes more stable. Even if a major fire accident occurs, insurance helps people rebuild quickly, reduces job losses, and prevents businesses from closing permanently. This supports steady economic activity and reduces the long-term impact of disasters.

4. **Reduces stress and brings peace of mind:** Knowing that property or business is protected by fire insurance reduces mental stress. People feel secure because they know that if something unexpected happens, they will receive financial support. This peace of mind allows them to focus on their work and daily life without constant worry about fire risks.

5. **Supports quick recovery after a disaster:** Fire insurance helps in fast recovery because the compensation received allows immediate repair of damage, purchase of new goods, and restoration of the property. Without insurance, recovery may take months or years. With insurance, people and businesses can return to normal life much faster.

10.3.2 Marine Insurance

Meaning:

Marine insurance is a type of insurance that protects ships, cargo, and other goods that are transported through the sea, air, or inland waterways. In simple words, whenever goods are shipped from one place to another, there is always a risk of damage due to storms, accidents, sinking, or theft. Marine insurance provides financial protection against these risks. It ensures that the owner of the goods or the ship does not suffer heavy financial loss if something unexpected happens during transit. So, marine insurance acts like a safety shield for traders, exporters, importers, and ship owners.

Purpose:

The main purpose of marine insurance is to support safe and tension-free trade across countries and states. It helps businessmen reduce the fear of losing goods while transporting them overseas. The purpose is not only to compensate for losses but also to encourage international business by providing confidence to traders. Marine insurance makes sure that if goods are damaged during a voyage, the loss will be covered by the insurance company. This helps companies manage their risks better, plan their shipments smoothly, and continue their business operations without financial stress.

Importance:

1. **Protects against heavy financial loss:** In marine transportation, losses can be very large because goods travel long distances through risky environments like oceans and international waters. Marine insurance protects the cargo owner or ship owner by compensating them when goods get damaged, stolen, or lost. This prevents big financial setbacks and keeps the business stable.

2. **Encourages international trade:** Importers and exporters feel more confident doing business across countries when they know their goods are insured. Marine insurance gives security to traders, helping them

expand their markets globally. Without this protection, many businesses would avoid international trading due to high risks.

3. **Covers a wide range of risks:** Marine insurance covers several risks such as storms, piracy, ship collisions, sinking, fire, leakage, and handling damage. Since these risks cannot be fully controlled, insurance becomes extremely important. It ensures that no matter how the loss occurs, the financial impact is reduced.

4. **Builds trust between trade partners:** Buyers and sellers often do business across long distances without seeing each other. Marine insurance builds trust because both parties know that goods are protected during transit. This reduces disputes between parties and improves smooth trade relationships.

5. **Supports smooth movement of goods:** Marine insurance helps businesses plan and move their cargo without worrying about uncertainties on the way. Even if goods are damaged, the insurance claim helps them recover losses, ensuring continuous supply of materials and products in the market.

10.3.3 Motor Insurance

Meaning:

Motor insurance is a type of insurance that provides financial protection to the owner of a vehicle such as a car, bike, truck, or any commercial vehicle against losses caused by accidents, theft, fire, or natural disasters. When a vehicle meets with an accident or gets damaged, the cost of repair can be very high. Motor insurance helps the owner by paying for these expenses. It also covers the damage the vehicle may cause to other people, property, or vehicles on the road.

Purpose:

The main purpose of motor insurance is to make road transportation safe, responsible, and financially secure. Since accidents can happen anytime, the purpose of motor insurance is to protect both the

vehicle owner and the public from large financial losses. In many countries including India, third-party motor insurance is compulsory because it ensures that if a vehicle owner harms someone or damages someone else's property, they can compensate the victim through insurance. Motor insurance also helps improve road safety by making drivers more accountable.

Importance:

1. **Protects vehicle owner from financial loss:** Repairing a damaged vehicle can be expensive, especially after major accidents. Motor insurance helps the owner by covering repair costs. Without insurance, the entire expense would fall on the vehicle owner, which could be difficult to manage. Insurance provides a financial cushion and avoids sudden money problems.

2. **Mandatory by law (third-party insurance):** In India, it is compulsory for every vehicle to have at least third-party insurance. This law exists to ensure public safety. If a vehicle causes injury or damage to someone else, the insurance policy pays for it. This prevents legal issues and ensures responsible driving.

3. **Provides personal accident cover:** Motor insurance also offers protection to the driver and passengers through personal accident cover. In case of injury or disability caused by an accident, the insurance company provides financial compensation. This helps the affected person manage medical expenses and reduces the emotional and financial burden on the family.

4. **Covers loss due to theft or fire:** Vehicles are valuable assets. Theft or fire can lead to complete loss. Motor insurance compensates the owner if the vehicle is stolen or destroyed in a fire. This makes sure the owner does not lose the entire investment made in the vehicle.

5. **Encourages safe and responsible driving:** Knowing that unsafe driving can increase insurance premiums or cause claim issues, vehicle owners become more cautious on the road. This indirectly helps reduce accidents and improves overall road safety.

10.3.4 Agricultural & Crop Insurance:

Meaning:

Agricultural and crop insurance is a type of insurance that protects farmers from financial losses caused by events they cannot control, such as drought, floods, cyclones, pests, or disease attacks. Farming depends heavily on weather and natural conditions, so even a small change can destroy crops and cause huge loss to the farmer. Crop insurance helps the farmer by compensating for this loss. In simple words, it acts like a safety net that supports farmers when their crops fail due to natural or accidental reasons.

Purpose:

The main purpose of agricultural and crop insurance is to ensure that farmers do not suffer from extreme financial difficulty when their crops fail. Farming is the primary source of income for millions of people, and crop damage can destroy their livelihood. Crop insurance aims to give farmers confidence, help them continue farming, and encourage investment in better seeds, fertilizers, and technology. It also supports the agriculture sector by stabilizing farmers' income and promoting long-term growth.

Importance:

1. **Protects farmers from crop loss:** Farmers face many risks such as drought, excessive rainfall, storms, pests, diseases, and temperature changes. These factors can completely damage the crops, leaving farmers helpless. Crop insurance provides financial relief by compensating for this loss. It helps farmers recover and continue farming in the next season without falling into debt.

2. **Ensures financial stability for farmers:** Agriculture is a high-risk activity. A single crop failure can push a farmer into financial crisis. Crop insurance ensures that farmers maintain stable income even after natural disasters. With timely compensation, they can buy seeds, fertilizers, and essentials for the next cycle, maintaining continuity in their livelihood.

3. **Encourages farmers to use modern techniques:** When farmers know that their crops are insured, they feel more confident to use high-quality seeds, advanced irrigation methods, fertilizers, and modern farming equipment. They do not fear losing their full investment. This improves productivity and helps increase the overall agricultural output of the country.

4. **Reduces farmer suicide and financial stress:** Many farmers struggle with loans and financial pressure, especially when crops fail. Crop insurance reduces this burden by sharing the risk. When farmers receive compensation after a crop loss, they can repay part of their loans and reduce stress. This helps improve their mental well-being and family stability.

10.3.5 Travel Insurance

Meaning:

Travel insurance is a type of insurance that protects a traveller from financial losses that may occur during a trip. These losses can include medical emergencies, trip cancellations, lost luggage, passport loss, flight delays, or accidental injuries. When people travel either within the country or abroad unexpected events can happen anytime. Travel insurance acts like a safety shield that supports the traveller during such problems and reduces financial stress.

Purpose:

The main purpose of travel insurance is to make traveling safe, secure, and worry-free. It ensures that if something goes wrong during a journey such as a medical emergency or lost belongings- the traveller receives immediate assistance and financial protection. It also helps travellers deal with emergencies in foreign countries where medical costs are very high. The purpose is to provide peace of mind throughout the travel experience.

Importance:

1. **Provides protection during medical emergencies abroad:** Medical treatment in foreign countries can be extremely expensive. If a traveller falls sick or meets with an accident, travel insurance covers hospitalization, medicine, and emergency services. This saves the traveller from large unexpected expenses.

2. **Covers trip cancellation or delay:** Sometimes trips get cancelled or delayed due to illness, weather issues, or airline problems. Travel insurance compensates for prepaid expenses like hotel booking, flights, or tour packages. This prevents financial loss due to a sudden change in travel plans.

3. **Protects against loss of luggage and travel documents:** Losing luggage or important documents like a passport can cause big problems during travel. Travel insurance provides financial help for lost bags and assists the traveller in getting new documents or emergency support.

10.3.6 Home Insurance

Meaning:

Home insurance is an insurance policy that protects a person's house and its contents from losses caused by events like fire, theft, natural disasters (floods, earthquakes, storms), or accidental damage. A home is one of the most valuable assets for any family. If something happens to the house or the belongings inside it, the loss can be huge. Home insurance provides financial support to repair or rebuild the house and replace damaged items.

Purpose:

The purpose of home insurance is to safeguard the homeowner from unexpected financial losses. It ensures that if the house is damaged due to fire, natural calamities, or theft, the owner gets compensation to repair or rebuild the property. The purpose is to provide security, stability, and protection for families so that they do not face major financial problems during disasters.

Importance:

1. **Protects the house from natural disasters:** Events like floods, earthquakes, storms, and heavy rainfall can severely damage a house. Repairing such damage can be very costly. Home insurance covers these losses, helping the owner rebuild or repair the property without spending from their own savings.

2. **Covers loss due to fire or accidents:** Fire accidents can destroy the entire house and everything inside it. Home insurance provides compensation for fire-related losses. It ensures the owner does not lose their lifetime investment due to an unexpected accident.

3. **Protects household items and valuables:** Home insurance covers the loss or damage of furniture, appliances, jewellery, electronics, and other belongings. Whether the cause is theft, burglary, or accidental damage, the insurance policy helps the owner recover the value of these items.

4. **Reduces financial stress during emergencies:** If the house gets damaged, the family may need temporary accommodation or repair services. Home insurance helps cover these additional costs. This support reduces stress and gives the family financial stability during tough times.

10.4 Difference between Life Insurance and General Insurance :

Basis	Life Insurance	General Insurance
Nature	Life insurance provides protection specifically against risks related to human life, such as death or survival for a fixed term. It is designed to ensure financial security for the policyholder's family or dependents.	General insurance provides protection against risks related to property, assets, or other uncertainties, such as fire, theft, accidents, marine cargo loss, health emergencies, etc. It ensures compensation for actual financial loss.
Duration of Policy	Policies are generally long-term, ranging from 10 to 30 years or sometimes lifelong. Life insurance is a long-term investment and protection plan.	Policies are generally short-term, usually for 1 year and renewable annually. The coverage is valid only for the policy period.
Type of Risk Covered	Covers certain risk, meaning the risk (death) is inevitable. The uncertainty is about the timing of the event.	Covers uncertain risk, meaning the event (fire, accident, theft and natural disaster) may or may not happen. Loss is unpredictable.
Premium Payment	Premiums are generally higher, reflecting the long-term nature and potential investment/ savings benefits. Paid regularly (monthly, quarterly, or yearly).	Premiums are generally lower, reflecting short-term risk coverage only. Usually paid once for the policy period.
Claim Payment	Claim is paid either on death of the policyholder (to nominee) or on maturity (to policyholder), as per the sum assured. The amount is predetermined.	Claim is paid only for actual financial loss, after assessment by the insurer. The amount may vary depending on the extent of damage or loss.

Objective	Primarily aims at financial security for the family and encourages long-term savings/ investment.	Primarily aims at protection against financial loss due to damage, accidents, or liability. No savings or investment component.
Beneficiary	Paid to the nominee or family after death, or to the policyholder on maturity.	Paid to the policyholder to repair, replace, or compensate for the damaged asset.
Value of Asset	Covers human life, which cannot be measured exactly in monetary terms. Premium is based on age, income, health, and lifestyle.	Covers tangible assets or goods, whose value is measurable in money (market value or insured value).
Principle Followed	Does not follow the principle of indemnity, because the value of life cannot be calculated precisely.	Follows the principle of indemnity, which means compensation is limited to the actual financial loss only.
Examples	Life insurance policies, endowment plans, term insurance, ULIPs.	Fire insurance, marine insurance, motor insurance, health insurance, crop insurance, travel insurance.
Regulation and Law	Regulated by the Insurance Regulatory and Development Authority of India (IRDAI); policies often involve contracts with long-term clauses and surrender options.	Also regulated by IRDAI, but contracts are usually short-term, and claims are settled based on actual loss assessment.

Exercise :

Q.1 Answer the following questions in detail:

1. Explain the concept of indemnity in general insurance. Discuss its importance.
2. Discuss the meaning, purpose and importance of fire insurance.
3. Write a detailed note on marine insurance.
4. Explain motor insurance in detail.
5. Write a note on agricultural & crop insurance.
6. Describe travel insurance highlighting their meaning, purpose and importance.
7. Discuss about home insurance in detail.
8. Discuss the difference between life insurance and general insurance.

Q.2 Answer the following questions in short:

1. What is the principle of indemnity?
2. Name the main types of general insurance.
3. What are the two main differences between life insurance and general insurance?
4. Give one example of marine insurance and one example of motor insurance.
5. What is meant by third-party insurance in motor insurance?

Q.3 Multiple Choice Questions

1. The principle of indemnity ensures that:

   a) The insured makes a profit from insurance

   b) The insured receives compensation only for actual loss

   c) The insurer pays more than the loss

   d) None of the above

   Answer: b) The insured receives compensation only for actual loss

2. Which of the following is a general insurance policy?

   a) Term life insurance

   b) Endowment plan

   c) Fire insurance

   d) Unit Linked Insurance Plan (ULIP)

   Answer: c) Fire insurance

3. Marine insurance protects:

   a) Only ships

   b) Only cargo

   c) Ships, cargo, and goods during transit

   d) Human life

   Answer: c) Ships, cargo, and goods during transit

4. Life insurance differs from general insurance because:

   a) Life insurance provides protection against human life risk

   b) Life insurance is short-term

   c) Life insurance follows the principle of indemnity

   d) Life insurance compensates only actual loss

   Answer: a) Life insurance provides protection against human life risk

5. Motor insurance includes coverage for:

   a) Damage to the vehicle　　b) Third-party liability

   c) Personal accident cover　　d) All of the above

   Answer: d) All of the above

6. Crop insurance is important for:

   a) Farmers　b) Industrialists　c) Doctors　d) Teachers

   Answer: a) Farmers

7. Travel insurance provides compensation for:

   a) Lost luggage

   b) Trip cancellation

   c) Medical emergencies during travel

   d) All of the above

   Answer: d) All of the above

8. Which type of insurance is mandatory by law in India?

   a) Fire insurance　　b) Motor third-party insurance

   c) Home insurance　　d) Travel insurance

   Answer: b) Motor third-party insurance

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Unit - 11
Health Insurance

11.1 Introduction

11.2 Need for Health Insurance in Today's World

11.3 Individual vs. Family Floater Policies

11.4 Cashless Treatment

11.5 Government Health Insurance Schemes

Exercise

11.1 Introduction :

Take a moment and think about this simple question "How financially prepared are you in case of an unexpected medical emergency?" Despite their emotional resilience, most people are aware that medical expenses are rising more quickly than their savings. A single hospitalization-whether due to an accident, surgery, or illness-can drain years of savings in just a few days. For this reason, health insurance has emerged as one of the most important financial instruments of our time.

What is Health Insurance?

In exchange for a premium, the insurance company promises to cover your medical costs under the terms of your health insurance policy. An agreement between you and an insurance provider that commits the insurer to covering your medical costs in return for a premium is known as health insurance.

Whenever you face a health emergency, your policy helps you cover:

- Hospital bills
- Doctor fees
- Surgery costs
- Diagnostic tests
- Medicines
- Pre- and post-hospital care

- Sometimes even day-care procedures and preventive checkups

In simple words:

Health insurance allows you to focus on recovery, not on hospital bills.

- **Why Is This Topic Important Today?**

Today's world is full of uncertainties:

- Lifestyle diseases like diabetes, heart problems, cancer
- Rising pollution leading to respiratory issues
- Increasing medical inflation
- Sudden accidents
- Stress-related illnesses

Even young, healthy individuals are at risk.

That is why health insurance is not just for the elderly-it is a must for **every individual and every family.**

- **How Does Health Insurance Help Families?**

Let's consider a relatable scenario: A middle-class family suddenly faces a medical emergency. Without insurance, they may have to:

- Borrow money
- Break fixed deposits
- Use savings meant for education or retirement
- Struggle with financial stress

But with health insurance, the entire treatment cost can be managed smoothly-often without paying a single rupee at the hospital.

11.2 Need for Health Insurance in Today's World :

Pause for a moment and ask yourself: "If a medical emergency struck right now, would my savings be enough?" Most people quietly admit the answer is no. This is why health insurance is no longer optional-it is essential. Let us explore the real reasons in an interactive, relatable way.

❑ Medical Costs Are Increasing Rapidly

Have you noticed how even a simple blood test or doctor consultation costs more today than it did a few years ago?

Now imagine the cost of:

- A surgery
- ICU stay
- Emergency treatment
- Long-term illness like cancer or heart disease

Medical inflation in India is rising faster than general inflation. Without health insurance, even a hospital bill of ₹ 2-5 lakh can wipe out years of savings. Health insurance acts as a safety net against these unpredictable expenses.

❑ Lifestyle Diseases Are Growing

Modern life comes with modern health risks.

People today face:

- Diabetes
- Hypertension
- Heart problems
- Thyroid disorders
- Obesity-related issues
- Cancer
- Mental health disorders

Surprisingly, these diseases are affecting **younger people** too.

Health insurance ensures that treatment is not delayed due to financial limitations.

❑ Accidents Can Happen Anytime

Accidents don't ask for permission.

Road accidents, workplace injuries, burns, fractures--these happen unexpectedly.

A single accident can result in:

- Emergency surgery
- Hospital stay
- Long rehabilitation
- High medical bills

Health insurance provides immediate financial support so treatment isn't compromised.

- **Helps Protect Your Savings**

Think about your savings - may be they are meant for:

- Children's education
- House purchase
- Retirement
- Weddings
- Emergency fund

Would you want to use them for an unexpected hospital bill?

Health insurance ensures that your life goals stay untouched and your long-term plans remain stable.

- **Coverage for Pre- and Post-Hospitalization**

Health insurance doesn't just cover hospital bills. It also helps with:

- Medicines
- Diagnostic tests
- Doctor visits
- Follow-up treatment

Many people underestimate these costs-but they can add up to thousands.

- **Cashless Treatment Reduces Stress**

Nobody wants to run around arranging money during a medical emergency.

Health insurance allows **cashless hospitalization,** where bills are settled directly between the insurer and hospital.

You simply focus on treatment-not payments.

- **Protects the Entire Family**

In today's world, where health threats can affect anyone in the family-children, parents, or spouse-health insurance ensures everyone stays protected Family floater plans make it economical and convenient.

- **Support During Critical Illness**

Treating critical illnesses can cost several lakhs. Health insurance helps families manage:

- Cancer treatment
- Kidney failure (dialysis)
- Heart surgery
- Organ transplant
- Stroke rehabilitation

Without insurance, such treatments can be financially devastating.

- **Increases Access to Quality Health care**

With insurance:

- You can choose better hospitals
- Opt for better treatment options
- Avoid compromising on quality due to cost

Health insurance ensures **timely, quality medical care,** leading to better recovery.

- **Government Encouragement and Rising Awareness**

Govemment policies and awareness programs encourage pcople to get insured. Schemes like **Ayushman Bharat** have shown how important financial protection is for the middle and lower-income groups.

11.3 Individual vs. Family Floater Policies :

When you decide to take health insurance, one of the first questions that comes to mind is: "Should I take separate policies for each member, or one policy for the whole family?" To answer this, we must understand the difference between Individual Health Insurance and Family Floater Health Insurance in an easy and real-life way.

11.3.1 Individual Health Insurance Policy

An individual health insurance policy is designed to cover only one person, where the entire sum insured belongs exclusively to that insured individual. This means the full coverage amount can be used only by that person and is not shared with anyone else. For example, if a person purchases an individual health insurance policy with a sum insured of ₹ 5 lakh, the entire ₹ 5 lakh is available solely for that individual's medical expenses.

❑ **Features of Individual Health Insurance Policy**

1. Provides coverage to only one person.
2. The entire sum insured is reserved exclusively for the insured individual.
3. Suitable for elderly people due to higher medical risks.
4. Claims made by one person do not affect the coverage of others.
5. Premium is charged separately for each insured person.
6. Offers dedicated and personalized medical coverage.

❑ **Advantages of Individual Health Insurance Policy**

1. Best suited for parents and senior citizens.
2. Ensures full and independent coverage for one person.
3. Ideal for individuals with pre-existing medical conditions.
4. Premium and coverage are not impacted by other family members' claims.

5. Provides greater flexibility in choosing coverage amounts.

- **Disadvantages of Individual Health Insurance Policy**

1. Expensive when taken separately for all family members.
2. Total premium cost increases as the number of insured members increases.
3. Managing multiple policies, renewals, and documents can be difficult.
4. Less cost-effective compared to family floater policies for young families.

11.3.2 Family Floater Health Insurance Policy

A family floater health insurance policy is a single policy that provides medical coverage to the entire family under one plan. It generally includes the husband, wife, and children, and in some cases, parents can also be added as optional members. Under this policy, the sum insured is shared among all the covered members. For example, if a family purchases a family floater policy with a sum insured of ₹ 10 lakh, the entire family can collectively claim up to ₹ 10 lakh in a policy year, depending on medical needs.

- **Features of Family Floater Health Insurance Policy**

1. Covers multiple family members under one single policy.
2. The sum insured is shared among all insured family members.
3. Premium is lower compared to purchasing individual policies for each member.
4. One policy, one premium payment, and one renewal date make it easy to manage.
5. Suitable for young and healthy families with low medical risk.
6. Allows flexibility in choosing higher sum insured at a reasonable cost.
7. Claim usage by one member reduces the available coverage for others.

8. Premium is usually calculated based on the age of the eldest family member.
9. Provides a simple and centralized health insurance solution for families.

❑ Advantages of Family Floater Health Insurance Policies

1. Highly cost-effective compared to multiple individual policies.
2. Easy to manage with minimal paperwork and documentation.
3. Ideal for nuclear families with husband, wife, and children.
4. Offers higher coverage at a lower overall premium.
5. Beneficial for families with small children who usually require less medical care.
6. Ensures all family members are protected under a single health plan.
7. Reduces the complexity of tracking multiple policy renewals.
8. Suitable for families with limited insurance budgets.

❑ Disadvantages of Family Floater Health Insurance Policies

1. A large claim by one family member reduces the remaining coverage for others.
2. Premium increases as the age of the eldest insured member increases.
3. Not suitable for families with multiple elderly members or high medical risks.
4. Coverage may get exhausted quickly if several members require treatment in the same year.
5. Less effective when one member has chronic or recurring health issues.
6. May require additional top-up plans for adequate protection in large families.

11.3.3 Individual vs. Family Floater: Practical Example

To clearly understand the difference between individual and family floater health insurance policies, let us consider a practical example of a family consisting of four members: a father aged 38 years, a mother aged 35 years, and two children aged 10 years and 6 years. If this family chooses individual health insurance plans, each member is covered separately with a sum insured of ₹ 5 lakh. This results in a total coverage of ₹ 20 lakh (₹ 5 lakh × 4 persons). However, since four separate policies are purchased, the overall premium paid by the family is comparatively high.

On the other hand, if the same family opts for a family floater health insurance policy, they can purchase a single policy with a sum insured of ₹ 10 lakh, which is shared among all four members. The premium for this option is much lower compared to four individual policies. While the coverage is shared, it is generally sufficient for young and healthy families where the chances of multiple major claims in the same year are low. This example clearly shows how family floater policies offer cost-effective coverage, whereas individual policies provide higher exclusive coverage at a higher cost.

11.3.4 Which Policy Should You Choose?

The choice between an individual health insurance policy and a family floater policy depends on the family structure, age, health condition, and budget. A young couple with children usually benefits more from a family floater policy, as it offers adequate coverage at a lower premium. Senior citizens are better suited for individual health insurance policies because they require dedicated coverage and have higher medical risks. Families with existing or chronic medical issues should prefer individual policies to avoid shared coverage being exhausted. Families with a limited budget may find family floater policies more affordable and convenient. In the case

of a large joint family, a combination of both individual and family floater policies is often the most practical solution to ensure comprehensive coverage.

11.3.5 Key Differences between Individual and Family Floater Policies

Basis	Individual Health Insurance Policy	Family Floater Health Insurance Policy
Coverage	Covers only one person	Covers multiple family members under one policy
Sum Insured	Exclusive and fully available to one individual	Shared among all insured family members
Premium	Higher, as premium is paid separately for each person	Lower and more economical for families
Ideal For	Elderly individuals or high-risk persons	Young and healthy families
Claim Impact	Claim affects only the insured individual	Claim by one member reduces coverage for all
Flexibility	High flexibility in choosing coverage and add-ons	Moderate flexibility due to shared coverage
Cost Effectiveness	Less cost-effective for multiple members	Highly cost-effective for nuclear families
Policy Management	Multiple policies and renewals to manage	Single policy with one renewal date
Suitability for Senior Citizens	Very suitable due to dedicated coverage	Not ideal if several elderly members are included
Risk Sharing	No sharing of risk	Risk shared among all covered family members

11.4 Cashless Treatment :

Imagine a medical emergency.

You rush to the hospital.

At the admission desk, the staff asks:

"Will you pay cash or use insurance?"

Now picture this scenario:

Instead of running around arranging money, making phone calls, or withdrawing savings, you simply hand over your **Health Insurance Card,** and the hospital begins treatment instantly. This is the power of **Cashless Treatment - no** upfront payment, no financial stress, no delays. Let's understand how it works and why it is one of the most valuable features of health insurance.

11.4.1 What Is Cashless Treatment?

Cashless treatment means the **hospital bills are settled directly** between your insurance company (or TPA) and the hospital.

You do **not** have to pay the treatment cost upfront, except:

- Non-medical expenses
- Optional services
- Amount beyond policy limit

In simple words: **You get treatment first. The insurance company pays later.**

11.4.2 Where Can You Use Cashless Treatment?

Cashless treatment is available only at **network hospitals.**

What are network hospitals?

Insurance companies tie up with specific hospitals.

These hospitals agree to provide:

- Direct billing
- Standardized rates
- Faster admission procedures

Such hospitals are called **network hospitals.**

11.4.3 Types of Cashless Treatment

Cashless treatment is mainly used in two major situations: (1) Planned Hospitalization and (2) Emergency Hospitalization.

1. **Planned Hospitalization**

   Planned hospitalization refers to medical treatment that is scheduled in advance, where the patient already knows the nature of the illness, the required procedure, and the date of admission. Common examples include knee surgery, cataract operations, and other scheduled medical procedures. Since the treatment is pre-planned, the patient or family can inform the insurance company beforehand, allowing the hospital to obtain prior approval. This ensures a smooth admission process and cashless treatment without the need to arrange funds at the time of hospitalization.

2. **Emergency Hospitalization**

   Emergency hospitalization occurs suddenly and without any prior notice. Situations such as accidents, heart attacks, strokes, or sudden serious illnesses require immediate medical attention, leaving no time for planning. In such cases, the insurance policy must be activated immediately so that treatment can begin without delay. Cashless treatment in emergencies is extremely important, as it enables prompt medical care while reducing financial stress for the patient and their family.

11.4.4 How Does Cashless Treatment Work?

The process of cashless treatment is simple and designed to reduce stress for patients and their families. In the case of **planned hospitalization (scheduled treatment),** the patient first chooses a hospital from the insurer's list of network hospitals. At the time of admission, the health insurance card or policy details are shared with the hospital. The hospital then fills and submits a pre-authorization form to the insurance company or Third Party Administrator (TPA). Once the insurer reviews the details, approval is usually granted within a few hours. After approval, hospitalization and treatment begin without the patient having to pay for covered medical expenses during the treatment period. At the time of

discharge, the insurance company directly settles the approved medical bill with the hospital. The patient may only need to pay for non-medical or optional expenses such as extra meals, registration charges, or personal convenience items.

In the case of **emergency hospitalization (unplanned treatment),** the process begins with rushing the patient to the nearest network hospital without any prior planning. The insurance card or policy number is shown as soon as possible at the hospital's insurance desk. The hospital then sends an emergency authorization request to the insurer or TPA, and approval is processed quickly to avoid any delay in treatment. Medical care starts immediately without waiting for full payment from the patient. After the treatment is completed, the insurance company settles the approved expenses directly with the hospital. In both planned and emergency situations, cashless treatment ensures timely medical care while eliminating the financial burden and urgency of arranging funds during critical moments.

11.4.5 Benefits of Cashless Treatment

1. **No Need to Arrange Money During Emergencies**

   The biggest advantage you don't have to worry about arranging lakhs of rupees in stressful situations.

2. **Eliminates Paperwork for the Patient**

   Hospitals and insurers handle all documentation.

3. **Immediate Treatment**

   Hospitals begin treatment without financial interruption.

4. **Saves Your Savings**

   Medical bills can destroy savings; cashless treatment protects them.

5. **Reduces Stress for Families**

   They can focus on care rather than money.

6. Best Hospitals Become Affordable

Cashless tie-ups make quality healthcare accessible.

11.4.6 Important Things to Remember

- Cashless is available **only in network hospitals.**
- Always carry your insurance card when traveling.
- Ensure your policy is active and premiums are paid.
- Pre-authorization is compulsory for planned procedures.
- In case of partial approval, you may need to pay the balance.

11.4.7 Real-Life Example

Suppose Mr. Rohan has a ₹ 5 lakh health insurance policy.

He needs a gallbladder surgery that costs ₹ 1.8 lakh.

At a network hospital:

- He shows his insurance card
- Hospital sends pre-authorization
- Treatment begins immediately
- Insurer directly pays the hospital

Rohan pays **nothing from his pocket** (except non-medical charges).

11.5 Government Health Insurance Schemes :

When we talk about health insurance in India, most people think only of private or corporate policies. But here's something important. The Government of India plays a massive role in providing affordable healthcare to millions of people, especially low-income families. Government health schemes act as a safety net for those who cannot afford high hospital bills or private insurance premiums. Let's explore the major government health insurance schemes in an interactive and practical way.

11.5.1 Why Does the Government Provide Health Insurance?

Before we learn about the schemes, ask yourself:

"What happens to a poor family when a sudden medical emergency occurs?"

They often have to:

- Borrow money
- Sell assets
- Delay treatment
- Depend on charities

Government schemes exist to make sure **every citizen - rich or poor - can access essential healthcare.**

11.5.2 Major Government Health Insurance Schemes in India

Below are the most important schemes, explained in simple and relatable language.

1. **Ayushman Bharat – Pradhan Mantri Jan Arogya Yojana (PM-JAY)**

This is one of the world's largest government-funded health insurance programs.

Key Highlights:

- Provides ₹ **5 lakh per family per year**
- Covers **poor and vulnerable families**
- Cashless treatment at government and empaneled private hospitals
- Covers **over 1,500+ medical procedures**
- No age limit or family size restriction

Who benefits?

Low-income and economically disadvantaged families.

Interactive Insight:

If a family with no savings requires a ₹ 3 lakh surgery, PM-JAY covers the entire cost"cashlessly.

2. Rashtriya Swasthya Bima Yojana (RSBY)

Originally launched for workers in the unorganized sector.

Features:

- Coverage: **₹ 30,000 per family per year**
- Beneficiaries: BPL (Below Poverty Line) families
- Covers hospitalization expenses
- Smart-card based identification

Why important?

RSBY was one of the first schemes to introduce cashless treatment for poor households.

3. Employees' State Insurance Scheme (ESIS)

Designed for employees working in factories, industries, and organized sectors.

Features:

- Medical care for employees and their dependents
- Covers sickness, maternity, disability, and occupational injuries
- Financed through contributions from employee and employer
- Access to ESI hospitals and dispensaries

Interactive Example:

If a factory worker suffers an accident at work, ESIS covers the hospitalization and wage compensation.

4. Central Government Health Scheme (CGHS)

This scheme is for central government employees.

Features:

- Covers employees, pensioners, MPs, judges, and other government personnel
- Access to CGHS wellness centers and empaneled hospitals
- Comprehensive healthcare: OPD, specialist care, medicines, diagnostics

Why is it important?

CGHS ensures lifelong health support for government employees and their families.

5. **State Government Health Insurance Schemes**

Many states run their own health insurance programs. Examples include:

Tamil Nadu – Chief Minister's Comprehensive Health Insurance Scheme

- Coverage up to ₹ 5 lakh
- Wide list of surgeries and treatments

Andhra Pradesh / Telangana - Aarogyasri Scheme

- Covers major illnesses and surgeries
- Cashless treatment in empaneled hospitals

Karnataka – Vajpayee Arogyashree

- Supports BPL families for critical illnesses

Maharashtra - Mahatma Jyotiba Phule Jan Arogya Yojana

Focused on low-income groups

Covers expensive procedures like heart, kidney, and cancer treatments

These schemes ensure that healthcare is accessible at the state level as well.

6. **Janani Suraksha Yojana (JSY)**

Focused on improving **maternal health.**

Key Features:

- Cash incentives for institutional delivery
- Special benefits for women in rural areas
- Free hospital care for pregnant women

Purpose:

To reduce maternal and infant mortality rates.

7. Pradhan Mantri Suraksha Bima Yojana (PMSBY)

Provides accidental insurance at a very low premium.

Features:

- Premium: ₹ **12 per year**
- Coverage:
  - • ₹ 2 lakh for accidental death
  - • ₹ 2 lakh for permanent disability
  - • ₹ 1 lakh for partial disability

Why helpful?

Offers financial protection even to low-income individuals.

11.5.3 How Government Schemes Help the Common Citizen

Let's understand the practical benefits:

- Poor families get **cashless treatment**
- Reduces burden of medical bills
- Encourages more people to seek timely care
- Improves health outcomes nationwide
- Promotes equity in healthcare
- Prevents families from falling into poverty due to illness

11.5.4 Quick Revision Table (Exam-Friendly Summary)

Scheme	**Beneficiaries**	**Coverage**	**Key Feature**
PM-JAY	Poor families	₹ 5 lakh	Largest cashless scheme
RSBY	BPL families	₹ 30,000	Smart-card based
ESIS	Workers	Comprehensive	Covers injuries & illness
CGHS	Govt employees	Extensive	Lifelong healthcare
State citizens	State Schemes	Varies (₹ 1-5 lakh)	Regional coverage
JSY	Pregnant women	Incentives	Institutional delivery
PMSBY	General public	₹ 2 lakh	Accident coverage

Exercise :

Q.1 Short Answer Questions (10 Questions)

1. What is health insurance? Explain its basic purpose.
2. Why is health insurance considered essential in today's world of rising medical costs?
3. Differentiate between individual health insurance and family floater health insurance.
4. What do you mean by cashless treatment in health insurance? How does it help patients during emergencies?
5. Explain the concept of network hospitals in the context of health insurance.
6. What are the major features of Ayushman Bharat - Pradhan Mantri Jan Arogya Yojana (PM-JAY)?
7. Deseribe any two advantages of family floater health insurance policies.
8. What is pre-authorization in cashless hospitalization? Why is it required?
9. List any three major government health insurance schemes in India and state their purpose.
10. How does health insurance help in protecting a family's savings during medical emergencies?

Q.2 Long Answer Questions:

1. Explain the concept of health insurance. Discuss in detail its importance and relevance in today's world of rising medical costs and lifestyle-related diseases.
2. Describe the major reasons why individuals and families need health insurance. Highlight how medical inflation, critical illnesses, and unexpected emergencies make health insurance essential.
3. Compare and contrast Individual Health Insurance Policies and Family Floater Health Insurance Policies. Discuss their features, advantages, limitations, and suitability for different types of families.
4. What is cashless treatment in health insurance? Explain in detail the process of cashless hospitalization for both planned and emergency treatments. Discuss its benefits for patients and families.

5. Discuss the concept of network hospitals. How do they function under cashless health insurance? Explain their role in reducing financial burden and improving treatment accessibility.

6. Provide a detailed explanation of at least four major Government Health Insurance Schemes in India. Discuss their objectives, eligibility criteria, and benefits.

7. Evaluate the role of Ayushman Bharat – Pradhan Mantri Jan Arogya Yojana (PM-JAY) in strengthening India's healthcare system. How has it helped poor and vulnerable families?

8. Explain the complete procedure involved in claiming reimbursement under a health insurance policy. How is it different from cashless claim settlement?

9. Discuss how health insurance supports financial stability for families. Explain its role in protecting savings, ensuring quality healthcare, and managing long-term medical risks.

10. Describe the major challenges faced by the health insurance sector in India. Discuss issues such as lack of awareness, low penetration, rising treatment costs, and the need for government intervention.

Q.3 Multiple Choice Questions

1. Health insurance primarily helps individuals by:

a) Increasing their savings

b) Reducing medical expenses

c) Covering medical costs during emergencies

d) Providing free medicines

Answer: (C) Covering medical costs during emergencies

2. Which type of policy covers only one person?

a) Family floater policy b) Individual health insurance

c) Group health insurance d) Government insurance

Answer: (B) Individual health insurance

3. In a family floater policy, the sum insured is:

a) Given separately to each member

b) Shared among all family members

c) Used only by parents

d) Used only for emergencies

Answer: (B) Shared among all family members

4. Cashless treatment is available only at:

a) Any hospital b) Clinics only

c) Network hospitals d) Government hospitals

Answer: (C) Network hospitals

5. The process of getting approval before treatment under cashless hospitalization is called:

a) Claim settlement b) Reimbursement

c) Pre-authorization d) Verification

Answer: (C) Pre-authorization

6. Ayushman Bharat - PM-JAY provides health coverage up to:

a) ₹ 50,000 b) ₹ 1 lakh c) ₹ 3 lakh d) ₹ 5 lakh

Answer: (D) ₹ 5 lakh

7. The main advantage of family floater insurance is:

a) Higher premiums

b) Shared coverage at a lower cost

c) Coverage only for children

d) No cashless facility

Answer: (B) Shared coverage at a lower cost

8. Which government scheme is mainly for central government employees?

a) PM-JAY b) RSBY c) CGHS d) Aarogyasri

Answer: (C) CGHS

9. Health insurance helps protect a family's savings by:

a) Increasing interest on savings

b) Paying hospital bills during emergencies

c) Offering loans

d) Providing free checkups only

Answer: (B) Paying hospital bills during emergencies

10. Medical inflation refers to:

a) Increase in food prices

b) Increase in hospital and treatment costs

c) Increase in petrol prices

d) Increase in GST rates

Answer: (B) Increase in hospital and treatment costs

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Unit - 12
Regulatory Bodies in Banking & Insurance

12.1. Introduction

12.2. RBI as a regulatory body in Banking

12.2.1 Regulatory Functions of RBI

12.3. IRDAI as a Regulatory Body in Insurance

12.3.1 Regulatory Functions of IRDAI

12.4. Deposit Insurance and Credit Guarantee Corporation (DICGC)

12.4.1 Functions of DICGC

12.5. SEBI's Role in Financial System

12.5.1 Functions and Powers of SEBI

12.6. Ombudsman schemes (Banking & Insurance)

12.6.1 Banking Ombudsman Scheme

12.6.2 Insurance Ombudsman Scheme

12.7. Recent Regulatory Reforms

12.7.1 Banking Sector Reforms

12.7.2 Insurance Sector Reforms

12.7.3 Securities Market Reforms

12.7.4 Cross-Sectoral Reform Patterns

12.8 Conclusion

Exercise

12.1 Introduction :

Consider a moment when you walk into a bank branch and deposit your monthly salary, or when you sign an insurance policy to protect your family. That moment of trust, that decision to entrust your money to an institution, rests on invisible architecture. Beneath every banking transaction and insurance claim

settlement lies a sophisticated system of oversight, rules, and accountability mechanisms designed to prevent your funds from disappearing and your claims from being denied unfairly. This invisible architecture is built and maintained by regulatory bodies. These are not passive observers but active architects of financial order in India.

India's financial system operates under multiple regulatory pillars, each established at different times and designed for specific sectors. The Reserve Bank of India (RBI), India's oldest financial regulator established in 1935, functions as the central banking authority. Over nearly nine decades, it has evolved from a currency manager to a comprehensive banking supervisor. The RBI does not merely react to problems; it pre-emptively sets capital requirements, conducts inspections, and issues directives that shape how banking operations function across the country. The Insurance Regulatory and Development Authority of India (IRDAI), created in 1999, emerged from recognition that insurance required specialized oversight distinct from banking. Insurance companies hold policyholder funds for decades before claims materialize. This temporal mismatch between premium collection and claim payment requires regulatory vigilance that general banking oversight cannot provide. The IRDAI ensures that when you file a claim two decades after purchasing a policy, the company still has resources to pay. The Securities and Exchange Board of India (SEBI), established in 1992, was born from India's need to attract capital market investment. SEBI transformed Indian securities markets from a relatively closed system into a dynamic platform for wealth creation and capital raising. Today, SEBI's rules determine what information listed companies must disclose, how trading must occur, and what happens when market participants violate fair play rules. The Deposit Insurance and Credit Guarantee Corporation (DICGC), created in 1978, represents a different regulatory philosophy altogether. Rather than supervising institutions, DICGC provides direct protection to depositors. If a bank fails unexpectedly, DICGC ensures that ordinary depositors recover their funds up to a specified limit.

Financial regulation exists for three interlocking purposes that justify the elaborate regulatory machinery. First, it protects individual consumers and depositors. When you deposit money in a bank, regulation ensures that the bank maintains adequate capital, follows proper lending practices, and maintains accurate records, When

you buy an insurance policy, regulation ensures the insurance company cannot engage in fraudulent claims practices or sell you coverage it cannot afford to honour. Second, regulation maintains system-level stability. Individual bank failures, insurance company collapses, or stock market crashes can trigger cascading failures across the financial system. Regulation prevents localized problems from spreading. When the RBI requires banks to maintain minimum capital levels, it is not being pedantic about numbers; it is preventing a single bank's failure from creating a domino effect across the financial system. Third, regulation enables fair competition and transparent markets. Without regulatory oversight, financial institutions could engage in misleading practices, manipulate information asymmetries, and exploit customers' lack of technical knowledge. Regulation creates a level playing field where competition occurs on merit rather than through deception.

These regulatory bodies do not merely write rules and disappear. They continuously supervise, investigate, enforce, and adapt. They determine which business practices are permissible and which invite penalties. They specify what information financial institutions must disclose to customers and investors. They establish timeframes for complaint resolution and remedies for customer grievances. The regulatory frameworks directly influence how much interest banks can pay depositors, what insurance premiums insurers can charge, what prices securities can trade at, and ultimately, how accessible and affordable financial services are to the general public.

What makes India's regulatory framework distinctive is its completeness. Most countries struggle to regulate all three dimensions of finance simultaneously. India maintains separate, specialized regulators for banking, insurance, and securities markets, supplemented by additional institutions like DICGC for consumer protection and Ombudsman schemes for grievance redressal. This multi-layered approach reflects recognition that different financial sectors face different risks and require different expertise. For students, common people and professionals entering banking, insurance, finance, or business administration, understanding these regulatory bodies is not an academic exercise but a practical necessity. You will operate within these regulatory frameworks throughout your career. You will need to understand which practices are permissible under regulatory guidelines, how to comply with disclosure requirements, what penalties attach to violations, and how to navigate regulatory change. Whether you work in a bank's compliance

department, an insurance company's product development team, an investment firm's trading floor, or a fintech startup's leadership, regulatory knowledge shapes your operational environment.

This chapter systematically explores each major regulatory body, including its establishment, legal authority, regulatory functions, supervisory mechanisms, and recent reforms. By understanding how these institutions function, what authority they exercise, and how they supervise financial enterprises, you gain insight into the invisible architecture supporting India's financial system and your role within it.

12.2 Reserve Bank of India (RBI) as a Regulatory Body in Banking :

The Reserve Bank of India constitutes the apex central banking institution and principal supervisory authority of the banking sector in India. Established in 1935, the RBI operates pursuant to the Reserve Bank of India Act of 1934 and the Banking Regulation Act of 1949. The RBI functions as the custodian of the banking system, implementing comprehensive oversight mechanisms to ensure the stability, safety, and soundness of banking operations.

12.2.1 Regulatory Functions of RBI

- **Licensing and Authorization of Banking Institutions**

The RBI exercises authority over the licensing function, which constitutes a fundamental mechanism for controlling entry of banking institutions into the financial system. Prospective banking institutions submit comprehensive applications delineating their proposed capital structure, strategic business objectives, organizational composition, and managerial qualifications. The RBI conducts rigorous evaluation to ascertain whether applicants fulfill stringent prerequisites, including minimum capitalization requirements and viable business propositions. Upon receipt of a valid license, banking institutions obtain authorization to undertake deposit acceptance and credit extension functions. However, such licenses remain contingent upon continuous adherence to prescribed regulatory standards. The RBI retains the authority to suspend or revoke licenses of banks that fail to maintain regulatory requirements or engage in imprudent banking practices. This licensing authority represents the RBI's gatekeeping function, ensuring that only

financially sound and well-managed institutions enter the banking system.

- **Capital Adequacy Framework**

The RBI formulates and enforces prudential norms establishing minimum standards for safe banking operations. Capital adequacy constitutes a critical prudential requirement under Basel III standards. Scheduled commercial banks are obligated to maintain minimum capital levels prescribed by the RBI, ensuring that banks possess sufficient financial buffers to absorb potential losses. Banks must also maintain capital conservation buffers, which provide additional safeguards against potential losses during periods of economic downturn. The RBI classifies bank capital into different categories based on the loss-absorption capacity of different instruments. Permanent equity instruments that can absorb losses without repayment obligations form the core capital component, whereas subordinated debt instruments that furnish supplementary loss absorption capacity form another category. These capital requirements ensure the continued solvency of banking institutions and their capacity to fulfill contractual obligations to depositors and creditors.

- **Regulatory Supervision**

The RBI exercises regulatory oversight through integrated on-site and off-site supervision mechanisms. Off-site supervision involves systematic analysis of financial statements, regulatory returns, and operational data submitted by banks on prescribed schedules. The RBI receives periodic reports covering various cycles, encompassing deposit positions, credit extensions, liquidity positions, and asset quality metrics. This continuous monitoring enables the RBI to identify emerging risks and trends within banking institutions without requiring physical presence. On-site supervision encompasses physical inspections of banking institutions, wherein RBI examination teams conduct comprehensive review of internal records, loan portfolios, accounting procedures, and operational methodologies. These inspections allow the RBI to assess the quality of internal controls, the propriety of lending

decisions, and the overall management competence of banking institutions. The RBI has adopted a risk-based supervision framework that allocates supervisory resources proportionately to the risk profiles of individual banking institutions. Banks demonstrating higher risk characteristics receive more intensive supervisory attention, whereas relatively stable institutions receive proportionately lighter supervisory burden.

- **Branch Licensing**

Banking institutions seeking to establish new banking outlets or relocate existing facilities require prior authorization from the RBI. The RBI evaluates expansion requests through consideration of multiple factors, including institutional financial performance, capital adequacy ratios, profitability metrics, asset quality indicators, and existing banking penetration in the proposed geographic areas. This regulatory mechanism ensures appropriate geographic distribution of banking services and prevents uncontrolled proliferation of banking outlets in specific locations. The RBI balances the desire to promote banking expansion and improve financial inclusion with the need to ensure that banking expansion does not undermine the viability of existing banking institutions operating in specific geographic areas.

- **Monetary Policy Implementation**

The RBI formulates and implements monetary policy mechanisms to regulate price stability, manage interest rate levels, and facilitate sustainable economic growth. The principal policy instrument is the repo rate, representing the interest rate at which banking institutions access borrowing facilities from the RBI. Adjustments to the repo rate transmit policy intentions to banking institutions, which subsequently adjust deposit rates and lending rates in response to changing cost of borrowing. When the RBI increases the repo rate, borrowing becomes more expensive for banks, which typically leads them to increase lending rates charged to customers and offer lower deposit rates to customers. Conversely, when the RBI reduces the repo rate, borrowing becomes cheaper, encouraging banks to reduce

lending rates and increase deposit rates. The RBI employs complementary monetary control instruments that influence the availability of loanable funds within the banking system. These instruments enable the RBI to expand credit availability during economic downturns and contract credit availability during inflationary periods, thereby stabilizing the overall economy.

- **Banking Operations Management**

The RBI exercises authority to issue binding directives governing banking operations, encompassing lending practices, deposit management, reserve maintenance, and financial reporting protocols. Banking institutions are bound to conform to all RBI directives issued in pursuit of public interest and sound banking policy objectives, with non-compliance attracting significant penalties. The RBI prescribes audit frameworks, internal control standards, and disclosure protocols, Banking institutions are obligated to maintain adequate accounting records conforming to prescribed standards and disseminate financial statements in stipulated formats. These operational directives ensure that all banking institutions maintain consistent operational standards, enabling the RBI to assess institutional compliance with regulatory expectations and intervene promptly when institutions deviate from prescribed standards.

- **Payment System Regulation**

The RBI exercises regulatory authority over payment systems and settlement infrastructure, including cheque clearing systems, real-time gross settlement mechanisms, and electronic clearing systems. The RBI maintains direct operational control over systemically critical payment systems, whilst issuing comprehensive regulatory guidelines for other payment infrastructure operators. This supervisory framework ensures the continued functionality, safety, and efficiency of payment and settlement mechanisms throughout the financial system. A disruption in payment systems could paralyze the entire financial system, making payment system oversight one of the RBI's most critical regulatory responsibilities. The RBI invests substantial resources in ensuring that

payment infrastructure remains technologically current, operationally efficient, and secure against cyber threats and fraudulent activities.

12.3 Insurance Regulatory and Development Authority of India (IRDAI) as a Regulatory Body in Insurance :

The Insurance Regulatory and Development Authority of India is the statutory regulatory agency governing the insurance sector in India. It was established in 1999 under the Insurance Regulatory and Development Authority Act of 1999 and functions as an autonomous authority under the Ministry of Finance, Government of India. Its mandate arises from both the IRDAI Act, 1999 and the Insurance Act, 1938. The Authority works to protect the interests of insurance policyholders, ensure the financial stability of insurance enterprises, foster orderly growth of the insurance sector, and establish standards of fair dealing and transparency in insurance transactions.

12.3.1 Regulatory Functions of IRDAI

- **Registration and Licensing of Insurance Companies**

The IRDAI exercises authority over the registration and licensing of insurance companies seeking to undertake insurance business in India. Prospective insurers must undergo a multi-stage registration process that includes submitting detailed information on capital structure, business objectives, management composition, and organizational framework. The Authority examines the competence and integrity of promoters and senior management, the financial soundness of the proposed capital structure, the adequacy of actuarial, accounting, and professional expertise, and the overall business viability. Only after these conditions are satisfied does IRDAI issue a certificate of registration authorizing the company to conduct insurance business, and this authorization remains subject to continuous compliance with regulatory requirements.

- **Solvency Supervision**

The IRDAI requires all insurance companies to maintain a solvency margin, which is the excess of assets over liabilities necessary to protect policyholders from the risk of insurer failure. The solvency position is

assessed using a ratio of available solvency resources to required solvency, where the required component is calculated with reference to the nature and volume of business underwritten. By insisting that insurers hold adequate solvency margins on a continuous basis, the Authority seeks to ensure that insurers can meet claims obligations even under adverse conditions and that policyholders are not exposed to undue insolvency risk.

- **Product Regulation**

The IRDAI oversees the design and launch of insurance products offered to the public. Insurers must follow a product filing framework that, in many segments, allows "use and file", under which products can be introduced subject to filing prescribed details with the regulator within a specified period. Each insurer is required to adopt a board-approved product management and pricing policy that sets out principles for product design, underwriting, and distribution. A product management committee consisting of senior functionaries, including the appointed actuary and key risk and compliance officers, reviews products before they are taken to market. Product pricing is expected to be consistent with accepted actuarial principles and to be viable, sustainable, and suited to the target segment.

- **Financial Reporting and Disclosure**

The IRDAI prescribes detailed financial reporting and disclosure norms for insurers. Companies must prepare and submit financial statements, including balance sheet, revenue account, profit and loss account, and related reports, within specified timelines after the close of each accounting period. Disclosures are required on liability valuation methods, risk concentrations, corporate governance structures, asset-liability management practices, technical provisions, capital management, and investment portfolios. These reporting requirements aim to provide stakeholders with reliable and timely information to assess the financial condition and performance of insurers.

- **Investment Regulation and Fund Management**

The IRDAI regulates the investment activities of insurers to ensure that policyholder funds are managed prudently. Insurers must operate

under a board-approved investment policy that lays down limits, risk parameters, and governance structures. The Authority prescribes quantitative limits for investment in different asset classes, such as government securities, corporate bonds, equities, and other permitted instruments, with the objective of ensuring diversification and controlling exposure to any single issuer or class of assets. Insurers are expected to maintain robust risk management systems, monitor investment performance regularly, and align asset-liability profiles so that claim payments can be met as they fall due.

- **Consumer Protection and Grievance Redressal**

The IRDAI places strong emphasis on policyholder protection. Insurers are required to establish internal grievance redressal mechanisms with designated officers at various levels. They must acknowledge complaints within a defined period and resolve them within prescribed timelines. Where policyholders remain dissatisfied, they may approach the Authority's policyholder protection and grievance redressal division, which can review the matter and direct appropriate action. The IRDAI also promotes insurance awareness, strives to extend insurance to underserved segments, and expects insurers to provide clear and fair information regarding policy terms and conditions and to follow ethical practices in sales and servicing.

- **Claims Settlement Oversight**

The IRDAI monitors the claims settlement practices of insurers to ensure that claims are processed fairly and within reasonable timeframes. Insurers are expected to settle genuine claims promptly and to have escalation mechanisms when delays arise. The Authority encourages practices such as cashless settlement in health insurance to reduce the procedural burden on policyholders. Through its regulatory framework, the IRDAI seeks to uphold policyholders' rights to fair treatment, transparent communication, and timely dispute resolution, and it requires insurers to maintain systems for reviewing and improving the quality of claims management.

12.4 Deposit Insurance and Credit Guarantee Corporation (DICGC) :

The Deposit Insurance and Credit Guarantee Corporation is a wholly owned subsidiary of the Reserve Bank of India established under the Deposit Insurance and Credit Guarantee Corporation Act, 1961. The Corporation in its present form came into existence in 1978 following the integration of earlier deposit insurance and credit guarantee functions. It has two distinct mandates, namely providing deposit insurance to bank depositors and administering credit guarantee schemes, and it maintains separate funds for these activities which are used exclusively to meet related claims.

12.4.1 Functions of DICGC

- **Deposit Insurance Coverage Framework**

  The DICGC operates a deposit insurance scheme that provides protection to eligible deposits held with member banks. The Corporation insures the principal and interest amounts of deposits up to a maximum of five lakh rupees per depositor per bank, a limit that has been in effect since February, 2020. The protection applies to various types of deposits such as savings, fixed, current, and recurring deposits in insured banks. Coverage is computed separately for each bank, so deposits held with different insured banks are covered individually up to the prescribed limit. Deposits are aggregated according to the depositor's capacity and rights, so deposits held in individual capacity, joint accounts, or as trustee or guardian are treated in accordance with DICGC's rules on ownership categories.

- **Institutional Coverage and Membership**

  DICGC's deposit insurance scheme extends to commercial banks, including public sector, private sector, foreign banks operating in India, regional rural banks, local area banks, and eligible cooperative banks as notified. Membership in the deposit insurance scheme is compulsory for banks falling within the categories specified in the DICGC Act and related notifications, and banks cannot voluntarily withdraw from coverage while they remain licensed and operational. When an insured bank is placed under liquidation, amalgamation, or other final

restructuring, the Corporation obtains depositor data from the bank or the appointed liquidator and, after verification, pays the insured amounts to the liquidator or transferee bank for onward payment to depositors within statutory timelines.

- **Exclusions from Deposit Insurance Coverage**

The DICGC scheme does not cover all types of deposits. Deposits of central and state governments and foreign governments are excluded from insurance cover. Inter-bank deposits, i.e., deposits of one bank with another, are also excluded, as are deposits received outside India. Certain categories of cooperative entities not classified as insured banks do not fall within the scheme. Amounts in excess of the prescribed five lakh rupee insurance limit in a single bank are not insured and remain at risk if the bank fails.

- **Credit Guarantee Scheme Operations**

Historically, the Corporation or its predecessor entities have been associated with credit guarantee schemes intended to support lending to sectors that face difficulty in accessing formal credit. Such schemes were designed to encourage banks to lend to small borrowers, priority sectors, and weaker sections by providing guarantees that reduce the risk to lending institutions. Over time, the administration of many credit guarantee functions has evolved, and separate specialized institutions now handle several major guarantee schemes; however, the linkage between deposit protection and credit support remains an important part of India's broader financial stability and inclusion framework.

- **Premium Collection and Scheme Administration**

Banks maintain membership in the deposit insurance scheme by paying insurance premiums to DICGC. The premium is calculated on the basis of the insured deposits of each member bank and is paid by the banks; it is not charged separately to depositors. The Corporation's authorized capital is subscribed by the Reserve Bank of India, and overall management is entrusted to a Board of Directors constituted in accordance with the DICGC Act. The enhancement of the insurance

limit from one lakh rupees to five lakh rupees in 2020 significantly increased the level of protection available to small and medium depositors and strengthened confidence in the banking system.

12.5 SEBI's Role in Financial System :

The Securities and Exchange Board of India is the statutory regulatory authority for securities and commodity derivative markets in India. Established as a non-statutory body in 1988, it gained full statutory powers through the SEBI Act, 1992. SEBI operates under the Ministry of Finance and has three core objectives: protecting investor interests, promoting development of the securities market, and regulating market operations to prevent fraud and unfair practices.

12.5.1 Functions and Powers of SEBI

- **Regulatory Authority Over Securities Markets**

SEBI exercises comprehensive oversight over all major market participants including stock exchanges, brokers, merchant bankers, portfolio managers, investment advisers, depositories, mutual funds, and foreign portfolio investors. It establishes mandatory registration and licensing requirements for intermediaries and prescribes eligibility criteria, net worth standards, and ongoing compliance obligations. SEBI also regulates the primary market by overseeing public issues, listings, and rights offerings. Companies seeking stock exchange listing must obtain SEBI approval and adhere to stringent disclosure and governance norms throughout their listed life.

- **Quasi-Legislative Powers**

SEBI's quasi-legislative authority enables it to frame detailed, binding regulations covering listing obligations, trading practices, corporate governance, insider trading prohibitions, takeover procedures, and mutual fund operations. These regulations specify disclosure timelines, board composition requirements, related party transaction approvals, and audit committee mandates. SEBI continuously reviews and updates its regulatory framework to address emerging market risks, facilitate innovation, and align with global best practices while maintaining investor protection.

- **Quasi-Judicial Powers and Enforcement**

SEBI possesses quasi-judicial powers to investigate securities law violations including insider trading, market manipulation, disclosure failures, and intermediary misconduct. It can summon witnesses, seize documents, conduct search and seizure operations, and examine records. After due process including show-cause notices and hearings, SEBI imposes penalties such as monetary fines, disgorgement of unlawful gains, trading bans, and registration cancellations. Adjudication orders are appealable to the Securities Appellate Tribunal for judicial review.

- **Supervisory and Executive Functions**

SEBI maintains continuous market surveillance through real-time monitoring systems that detect unusual trading patterns and potential manipulations. It conducts periodic inspections of registered intermediaries to verify compliance with net worth, segregation of client funds, and risk management requirements. SEBI issues binding directions to exchanges and market participants on clearing, settlement, margin requirements, and circuit breakers. Where violations are suspected, SEBI can initiate immediate remedial actions including trading halts and position square-offs.

- **Investor Protection Measures**

Investor protection forms the cornerstone of SEBI's mandate. It mandates comprehensive corporate governance standards requiring independent directors, mandatory board committees, and prior shareholder approval for material transactions. SEBI maintains Investor Protection Funds at stock exchanges to compensate investors for broker defaults. It also runs nationwide investor awareness programs, grievance redressal mechanisms, and SCORES platform for complaint tracking. Listed companies must make material disclosures within specified timelines to ensure price discovery based on public information.

- **Market Development Initiatives**

Beyond regulation, SEBI actively develops capital markets by introducing new products like Real Estate Investment Trusts (REITs), Infrastructure Investment Trusts (InvITs), and social stock exchanges. It streamlines IPO processes, promotes electronic platforms for rights issues, and facilitates retail investor participation through demat accounts and SIPs in mutual funds. Regulatory sandboxes enable fintech innovation under controlled conditions while safeguarding investors.

- **Procedural Safeguards and Appeals**

SEBI's enforcement follows principles of natural justice with mandatory notice, hearing opportunities, and reasoned orders. Adjudication officers issue detailed findings supported by evidence and legal precedents. Aggrieved parties appeal to the Securities Appellate Tribunal, whose decisions can be challenged in High Courts on substantial questions of law. This multi-tiered review ensures regulatory accountability while maintaining market discipline.

12.6 Ombudsman Schemes (Banking and Insurance) :

Ombudsman schemes constitute statutory alternative dispute resolution mechanisms designed to provide expeditious, cost-free grievance redressal to customers of banking and insurance institutions. These schemes enable aggrieved customers to seek independent quasi-judicial determination of service deficiencies without recourse to protracted litigation in civil courts. Distinct schemes operate under the regulatory oversight of the Reserve Bank of India for banking services and the Insurance Regulatory and Development Authority for insurance services.

12.6.1 Banking Ombudsman Scheme

- **Establishment and Legal Framework**

The Banking Ombudsman Scheme commenced operations in 1995 and underwent significant restructuring through the Banking Ombudsman Scheme 2006. The current framework operates under the Reserve Bank - Integrated Ombudsman Scheme 2021, notified

on November 12, 2021, which consolidates three earlier RBI ombudsman schemes into a unified structure with jurisdiction-neutral processing across India.

- **Jurisdictional Scope**

The scheme encompasses complaints relating to deficiency in banking services, including delays in payment or collection of cheques, bills and other negotiable instruments, non-acceptance of valid currency notes and coins, delays in remittances and issuance of payment instruments, failure to provide or delay in promised banking facilities, unauthorized debits or credits to accounts, levy of unauthorized service charges, and non-adherence to RBI directives on interest rates and service standards.

- **Complaint Lodgement Procedure**

A complainant must first submit a written grievance to the concerned bank. In the absence of satisfactory resolution or response within thirty days, the customer may approach the Banking Ombudsman within one year from the date of bank's reply or one year and thirty days from the date of complaint if no reply is received. Complaints are processed through RBI's centralized portal (cms.rbi.org.in) accepting submissions in thirteen regional languages.

- **Resolution Mechanism and Awards**

The Ombudsman first attempts conciliation between parties within thirty days. Unresolved matters proceed to adjudication where reasoned awards are passed within thirty days of completing proceedings. Awards remain binding upon the regulated entity but non-binding upon complainants who retain recourse to consumer courts.Non-compliant banks face regulatory penalties from RBI.

- **Appellate Jurisdiction**

Awards are appealable to the Deputy Governor of RBI within thirty days of communication.

12.6.2 Insurance Ombudsman Scheme

- **Establishment and Governance**

Instituted in 1998, the scheme functions under the Insurance Regulatory and Development Authority (Insurance Ombudsman) Rules, 2017 as amended. Seventeen regional offices serve defined territorial jurisdictions across India.

- **Jurisdictional Competence**

The Insurance Ombudsman adjudicates complaints against insurers and intermediaries concerning delay or repudiation of claims, disputes over premium payments, policy servicing deficiencies, delays in policy issuance, misrepresentation of policy terms, unfair trade practices, and other service deficiencies across life, general, and health insurance segments.

- **Pecuniary Jurisdiction**

Ombudsman possesses authority over complaints where value does not exceed fifty lakh rupees, enhanced through amendment to Insurance Ombudsman Rules.

- **Procedural Framework**

Complainants must exhaust the insurer's internal grievance redressal mechanism first. Unresolved grievances may be filed with jurisdictional Ombudsman within one year of insurer's reply or one year from complaint date if no reply received. Proceedings commence with mediation followed by formal adjudication if required.

- **Nature of Awards**

Awards remain binding upon insurers with thirty-day compliance mandate; non-compliance attracts penal interest at bank rate plus two percentage points. Complainants retain option to reject awards and pursue judicial remedies.

- **Comparative Analysis**

Both schemes mandate prior exhaustion of internal grievance mechanisms and operate without filing fees or legal representation

requirements. The banking scheme targets thirty-day resolution through its integrated 2021 framework while the insurance scheme maintains regional office structure with Rs 50 lakh pecuniary limit. Awards uniformly bind regulated entities while preserving complainants' judicial rights. These mechanisms reduce judicial burden, ensure regulatory compliance, and enhance consumer confidence in financial services through accessible, independent dispute resolution.

12.7 Recent Regulatory Reforms :

Recent regulatory reforms across India's banking, insurance, and securities sectors demonstrate regulators' strategic response to evolving market dynamics, technological disruption, and global standards. These reforms prioritize financial stability, consumer protection, innovation facilitation, and operational efficiency while maintaining robust oversight frameworks.

12.7.1 Banking Sector Reforms

- **Risk-Based Deposit Insurance Premiums**

The Reserve Bank of India has shifted from uniform deposit insurance premiums to a risk-differentiated framework. Financially sound banks with superior risk management receive lower premiums from DICGC, while institutions exhibiting higher risk profiles face elevated costs. This mechanism aligns insurance pricing with actual risk exposure, incentivizing conservative lending practices, enhanced capital buffers, and proactive risk mitigation across the banking system.

- **Expected Credit Loss (ECL) Provisioning**

RBI mandates transition to forward-looking Expected Credit Loss provisioning, replacing traditional incurred loss models. Banks must estimate probability-weighted credit losses based on macroeconomic indicators, borrower financial health, and portfolio characteristics. This anticipatory approach enhances resilience against economic downturns by ensuring timely loss recognition and adequate provisioning before defaults materialize, strengthening overall deposit protection.

- **Revised Basel III Capital Framework**

Updated Basel III guidelines recalibrate risk weights across asset

classes, providing favourable treatment for priority sector lending including MSMEs and affordable housing. The framework maintains conservative capital requirements while enabling credit expansion to productive economic segments. Extended implementation timelines facilitate smooth adaptation of internal systems and capital planning processes.

- **Fintech and Digital Banking Regulation**

RBI's Regulatory Sandbox framework enables controlled testing of innovative financial products under defined parameters and time limits. Complementary guidelines govern digital lending platforms, AI applications in credit underwriting, and cybersecurity protocols for fintech operations, balancing innovation with systemic stability and consumer safeguards.

12.7.2 Insurance Sector Reforms

- **Insurance Laws Amendments**

Comprehensive amendments expand foreign investment limits, streamline intermediary registration, and enhance IRDAI's enforcement capabilities including disgorgement powers. Single-window registration replaces category-specific approvals, while relaxed equity transfer thresholds reduce routine regulatory scrutiny, fostering capital inflows and operational flexibility.

- **Principle-Based Regulatory Shift**

IRDAI transitions from prescriptive rules to outcome-oriented principles, granting insurers flexibility in achieving regulatory objectives. This evolution accommodates product innovation, distribution channel diversification, and customized risk management while maintaining policyholder protection standards through performance-based compliance.

- **Policyholder Protection Enhancement**

New regulations mandate consumer-centric product design, transparent communication, streamlined claims settlement, and robust grievance

mechanisms. Insurers must demonstrate fair treatment throughout policy lifecycle from design through claims, with enhanced disclosure requirements and internal ombudsman strengthening.

12.7.3 Securities Market Reforms

- **ICDR Regulations Streamlining**

SEBI's Issue of Capital and Disclosure Requirements amendments eliminate merchant banker mandates for rights issues and enable direct exchange filings. Uniform disclosure standards apply across all issue sizes, expediting capital raising while maintaining investor safeguards through comprehensive offer document scrutiny.

- **LODR Governance Strengthening**

Listing Obligations and Disclosure Requirements updates rationalize shareholder approvals, mandate analyst presentation disclosures, and enhance promoter transaction reporting. Material litigation disclosures against key personnel improve governance transparency and investor decision-making.

- **Integrated Compliance Platforms**

SEBI consolidates filing requirements into unified electronic platforms, reducing duplication and compliance costs. Enhanced Electronic Book Provider systems facilitate efficient private placements for qualified institutional buyers while preserving market integrity.

12.7.4 Cross-Sectoral Reform Patterns

- **Risk Differentiation:** Premiums, capital requirements, and supervisory intensity calibrated to institutional risk profiles across all sectors.

- **Technology Enablement:** Regulatory sandboxes, digital filing platforms, and Al governance frameworks facilitate fintech integration.

- **Stakeholder Protection:** Enhanced disclosures, grievance mechanisms, and enforcement powers safeguard consumers and investors.

- **Global Harmonization:** Basel III, IFRS 9 convergence, and principle-based approaches align India with international benchmarks.

These reforms collectively fortify India's financial architecture, enabling sustainable growth, technological advancement, and enhanced stakeholder confidence through adaptive, forward-looking regulation.

12.8 Conclusion :

India's financial regulatory architecture constitutes a comprehensive framework ensuring stability, consumer protection, and orderly market development across banking, insurance, and securities sectors, with the Reserve Bank of India maintaining apex authority over banking operations through licensing, prudential supervision, and monetary policy implementation, the Insurance Regulatory and Development Authority providing specialized oversight of insurance activities emphasizing solvency maintenance, product regulation, and policyholder protection, and the Securities and Exchange Board of India governing securities markets through quasi-legislative, quasi-judicial, and supervisory powers preventing fraud and ensuring market integrity. Complementary institutions such as the Deposit Insurance and Credit Guarantee Corporation offer direct deposit protection while Ombudsman schemes provide accessible, cost-effective dispute resolution, and recent reforms including risk-based approaches, principle-based regulation, digital innovation facilitation, and enhanced enforcement capabilities demonstrate adaptive governance balancing market development with stakeholder safeguards. For commerce and management students, understanding these institutions' mandates, powers, and interrelationships provides essential knowledge for professional practice, regulatory compliance, and contributing to a resilient financial system.

Exercise :

Q.1 Long Answer Questions

1. Explain RBI's main functions in banking regulation.
2. Describe IRDAI's role in insurance regulation.
3. What is DICGC and its deposit insurance coverage?
4. Discuss SEBI's powers and functions in securities markets.
5. Compare Banking and Insurance Ombudsman schemes.

Q.2 Short Answer Questions

1. What are the three purposes of financial regulation?
2. Name four RBI functions for banks.
3. What is IRDAI's solvency margin?
4. List five exclusions from DICGC coverage.
5. Explain Ombudsman award binding nature.

Q.3 Multiple Choice Questions

1. RBI was established in:

   A) 1934 B) 1955 C) 1949 D) 1935

   Ans: D) 1935

2. IRDAI was created under:

   A) IRDAI Act 1999 B) RBI Act

   C) SEBI Act D) Banking Act

   Ans: A) IRDAI Act 1999

3. DICGC covers deposits up to:

   A) Rs 1 lakh B) Rs 5 lakh C) Rs 10 lakh D) Rs 20 lakh

   Ans: B) Rs 5 lakh

4. SEBI got statutory powers in:

   A) 1988 B) 1999 C) 1992 D) 2006

   Ans: C) 1992

5. Banking Ombudsman started in:

   A) 1995 B) 2006 C) 2017 D) 2021

   Ans: A) 1995

6. Insurance Ombudsman Rules Were framed in:

   A) 1998 B) 2006 C) 2017 D) 2021

   Ans: C) 2017

7. RBI's main policy tool is :

   A) CRR B) SLR C) Repo Rate D) LCR

   Ans: C) Repo Rate

8. IRDAI "Use and File" for:

   A) All insurance B) Life/Health

   C) Reinsurance D) Motor

   Ans: B) Life/Health

9. DICGC membership for banks is :

   A) Mandatory B) Voluntary C) Optional D) Temporary

   Ans: A) Mandatory

10. Awards bind:

    A) Complainants B) Regulated entities

    C) Both D) None

    Ans: B) Regulated entities

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Unit - 13
Emerging Trends in the Banking and Insurance sector

13.1 Introduction

13.2 Background

13.3 Emerging Trends in Present Context

Exercise

13.1 Introduction :

Banking sector in India has undergone many stages of development from inception. Indian banking sector is progressively embracing optimal practices in accounting, corporate governance, and risk management. Now Interest rates have been liberalized. and the constraints of directed lending are being gradually eliminated. The Reserve Bank, in its endeavours to align with optimal worldwide banking practices, will enhance prudential regulations and fortify its supervisory framework. The current banking sector has introduced numerous initiatives aimed at enhancing customer service through the utilization of modern technologies. Information Technology has assisted the banking sector in addressing the issues presented by the new economy. Technology has created new markets, products, services, and efficient delivery routes for the banking sector.

13.2 Background :

During pre-independence banking sector banking sector were used by limited numbers of public. The major reason was the lack of confidence or trust of the general public or depositors. However, after establishment of central bank India situation was improved. After independence, central bank nationalized by the government in 1949.

Government has decided to nationalized all major commercial bank to achieve its socio-economic development goal. In 1969, 14 banks were nationalized and in 1980 further 6 more banks were nationalized. However, in 1990 our country adopted the open market policy and allowed many private banks to operate in the Indian market. Now public sector banks started struggling against the multidimensional and professional approach of private sector banks. Even quality

banking services enabling customers to access superior services was part of essential financial sector reforms. Accordingly, government merged small public sectors bank with bigger public sector banks to protect these banks from loss and problem of NPA. After merger now number of public sector bank reduced to 12.

13.3 Emerging Trends in Present Context :

Present banking is technology driven era equipped with Al tools, Basel and other standard compliant along with wide range of services and products like merchant banking, lease financing, issue management along with traditional banking services. Now personalised customisation become popular along with industrial financial insurance export financing etc.

There are the following emerging trends in the present banking sector:-

(i) Digitization:- C. Rangarajan Committee on the Computerization of Banks was established in 1989 to ensure necessary digitization in the banking sector. Following the rise of the banking sector in India, it was deemed necessary to implement mechanization and computerization at the branch, regional, and head office levels. It delineated the domain suitable for computerization and evaluated the requisite infrastructure for this objective. IT driven technology guarantee superior client service with rapidity and precision at minimal expense. It also facilitates the banks' decision-making process and ensures optimal resource utilization. This committee proposes that all transactions should be conducted through a centralized computing system. Comprehensive training programs were developed for personnel at different levels to operate in a computerized setting. It promotes an electronic ledger posting system and automatic account updates in lieu of manual entry. It proposed that the clearing house role be entirely computerized. The promotion of electronic fund transfers should be accompanied by the implementation of quick codes and adequate safeguards for online transactions. It advised the establishment of an ATM network at all essential locations to ensure 24/7 financial services. It facilitated credit card transactions for online payments on credit terms.

(ii) Use of artificial intelligence :- Presently banking sector shifted form "Banking 1.0"which relied on antiquated and traditional banking practices,

to Banking 4.0, which makes considerable use of artificial intelligence and incorporates cutting-edge technology everywhere, the banking sector has advanced significantly. To remain competitive and relevant, banks have been utilizing cutting-edge technologies. In 1960s, first of all Barclays Bank was a pioneer in the use of Banking 2.0 technologies, such as automated teller machines. Since 2017, artificial intelligence (AI) has advanced at a rapid pace, enabling faster transmission, cheaper data processing, and storage. This rapid progress is referred to as "banking 4.0." The appeal of AI-based financial breakthroughs with lower operating costs caused a rapid revolution of banking services. To keep up with the growing demand for these services, financial institutions have invested enormous sums of money in developing AI systems and new types of financial inclusion. Banks like Capital One, JPMorgan Chase, CitiBank, Wells Fargo, Barclays Bank Plc, and others who strategically use AI have seen an increase in profits.

Financial institutions can leverage AI for two primary purposes: enhancing client interaction and optimizing the management of financial services. Due to its versatility, it can accommodate the requirements of enterprises of various scales. High-speed computer systems that operate based on specific logical criteria constitute the cornerstone of artificial intelligence (AI). In comparison to traditional banking methods for certain computational financial tasks, AI-powered digital financial services become superior. Due to the competitive landscape of banking and the intrinsic attributes of AI, its application in financial operations is therefore unavoidable.

(iii) Merchant banking and other associated services:- At present banking services provides all kinds of services under one roof including traditional banking services. Accepting deposit and advancing loan is not only the primary job of banks. Banks increased services and products as per the requirement of the market. Hence concept of merchant banks come into picture. National Grindlays Bank commenced its "merchant"banking" services in India in 1967, followed by Citi Bank in 1970. In 1972, the SBI inaugurated

a separate Merchant Banking Division, becoming the nation's inaugural commercial bank to do so. In contrast to comprehensive commercial banks in other countries, merchant banks in India primarily operate as issuance entities. It facilitates all corporate functions related to issue management, lease finance factoring loan syndication etc.

There are the following function of merchants banks:

(i) Issue underwriting:- Large firms commonly utilize merchant banks to raise capital via the stock market.In case of undersubscription of issue these banks guarantee the minimum subscription.

(ii) Credit Syndication:- Merchant banks assist in the processing of applications for both short-term and long-term financing from financial institutions. They assist in identifying the most suitable financial institutions or banks based on the cost of capital to provide loan facilities.

(iii) Management of Portfolios:- Institutional and individual investors may utilize the portfolio management services provided by merchant banks. They assist in securities management to enhance the value of the underlying investment.

(v) Finance and Leasing:- Numerous merchant bankers provide their clients with financing and leasing alternatives. They also aid enterprises in securing financing via public deposit.

(vi) Issue Servicing:- Merchant banks have commenced functioning as registrars, transfer agents, and paying agents for the management of debt securities. Consequently, they organize the disbursement of dividends or interest due to shareholders and debenture holders, while also managing the records of these entities

(vii) Working Capital Finance: Merchant bankers also provide finance for working capital management. Consequently, enterprises can oversee their working capital with the assistance of merchant banks.

(viii) Credit acceptance and bill discounting: Merchant banks provide fund-based services including forfeiting, factoring, and bill discounting.

(ix) Merchant banks provide advisory services for mergers and acquisitions to either target companies or acquirers, as applicable.

(x) Venture financing:- Merchant banks provide various fund-based services to start- up enterprises, encompassing high-risk and high-reward financing options.

(xi) Lease Financing:- Merchant banks provide lease financing to enterprises for the acquisition of equipment and other assets. Consequently, these institutions facilitate the acquisition of assets at a reduced cost through leasing arrangements.

(xii) Additional Specialized Services:- Merchant banks provide corporate advisory services on matters such as mergers and acquisitions, tax consultancy, and cost and management audits, among others. A significant number of merchant bankers have commenced acquiring shares and debentures.

(iv) Financial integration: Financial integration or associating more than 100 crore population with the banking services was major challenges was in India. Nachiket more committee was formed to ensure the integration of general public in the banking sector. This committee was established in 2013 and published its report in 2014 to emphasize financial inclusion. Numerous recommendations are proposed to enhance the markets for banking and non-banking financial institutions and attain comprehensive financial inclusion. Therefore, to achieve financial inclusion The RBI should also provide licenses to institutions with lower entry barriers, including payment banks, wholesale consumer banks, and wholesale investment banks. The committee has proposed that every Indian citizen aged eighteen and above must possess a personal secure electronic bank account. It also suggested to establish the payment bank and small finance banks.

The Nachiket Mor Committee's recommendations have profoundly affected India's financial inclusion landscape, particularly through the establishment of small finance banks and payments banks by the RBI, thereby enhancing the accessibility of banking services, especially in rural regions. There were the following impacts of the recommendation of this committee:-

(i) **The Pradhan Mantri Jan Dhan Yojana (PMJDY):-** To open the account for all citizen in india, this scheme was introduced in 2014.This scheme is highly success full and significantly enhanced financial inclusion in India with more than 56 crore account holders.

(ii) **Aadhaar-Enabled Services:-** Numerous Indians, especially the underbanked, have gained advantages from utilizing Aadhaar as a primary identifier, facilitating the establishment of bank accounts and access to government services.

(iii) **Infrastructure for Digital Payments:-** The focus on technology has yielded innovations like the Unified Payments Interface (UPI), which has transformed digital payments in India and significantly enhanced financial inclusion.

(iv) **Payment banks:-** On the basis of recommendation of this committee payment were established. It offers fundamental financial services to underprivileged individuals or populations without access to banking facilities. It offers the capability to maintain savings and current accounts, coupled with an ATM card, primarily managing customer remittances and payments. It can accept deposits up to 200,000 rupees; however, it cannot extend loans or issue credit cards to its customers. It mostly utilizes digital infrastructure for financial services, such as PayTM Bank and Airtel Payment Bank.

(vi) **Establishment of small finance bank:-** This bank was formed to address the needs of small entrepreneurs, micro-industries, and workers or artisans from the unorganized sector. It takes many types of deposits and offers credit services. For example, AU Small Finance Bank and Ujjivan Bank.

(v) **Successful implementation of Basel III which ensure Financial stability-**

The Basel Committee on Banking Supervision published a document titled "Global Regulatory Framework for More Resilient Banks and Banking Systems" in December 2010 which is also known as Basel III norms. The principal objective this standard on the banking system is to enhance the quantity

and quality of regulatory capital to have a robust capital foundation. Curently, banks are being urged to comply with liquidity rules. Consequently, banks must be capable of enduring any financial adversity by adhering to these requirements. The primary focus of Basel IIl rules is to enhance the corporate governance framework for risk management while upholding rigorous market discipline. The Basel l regulations possess the following key attributes:

(i) Modification in capital requirements:- Common equity and retained earnings will now constitute the predominant portion of tier I capital. Common equity must constitute a minimum of 4.5% of Risk-Weighted Assets (RWA) under Tier I capital, while the entire Tier I capital must amount to 6% of RWA. The tier III concept has been abolished by Basel III regulations. This standard now incorporates systematic risk.

(ii) Enhanced Risk Coverage:- The capital requirements for trading derivatives as securitization activities must be reinforced. Capital charges for counterparty credit risk exposure supported by stressed inputs are also incorporated.

(ii) Minimum Leverage Ratio:- To mitigate excessive leverage in the banking sector, a minimum leverage ratio of 3% was instituted as a non-risk-sensitive safeguard. The Liquidity Coverage Ratio (LCR) was implemented in India in accordance with Basel III regulations effective from 2015. The decision was made to allocate 60% of the net cash outflow over a 30-day stress period.

(iv) The capital conservation buffer must be maintained at 2.5% to account for any unforeseen financial losses. Thus, this buffer can be employed to mitigate losses during periods of financial difficulty. It must be solely composed of common equity.

(v) The countercyclical buffer is to be sustained at a range of 0-2.5% to mitigate the recessionary trend in the market.

(vi) Enhanced risk management:- Off-balance sheet exposure and securitization activities now necessitate oversight.

(vii) Enhanced disclosure obligations:- Financial institutions are now required to disclose their exposure to securitization and off-balance sheet assets. A comprehensive elucidation of the elements of regulatory capital, "liquidity coverage ratio," and "net"stable funding ratio" a standard framework for liquidity risk will be revealed.

Consequently, we may ascertain that Basel III delineates an extensive and meticulous framework of capital regulation standards to ensure the financial stability of the banking sector.

The Reserve Bank successfully implemented the basel III norns and able to generate sufficient profit even after additional capital requirement.

(v) Digital Security:- Digital Security in the Banking Sector in the contemporary digital age is become important. Now banking industry has experienced a significant transition with the implementation of technology-driven services, including online banking, mobile banking, ATMs, and digital payments. Although these developments have enhanced the speed, convenience, and accessibility of banking, they have concurrently presented new challenges concerning digital security.

Digital security in banking pertains to safeguarding digital banking systems, customer information, and financial transactions from unauthorized access, cyber threats, and fraudulent activities. Financial institutions manage enormous quantities of confidential information, including personal data, account identifiers, and passwords. Consequently, upholding robust cybersecurity is crucial for fostering client trust and ensuring the stability of the financial system. To mitigate cyber hazards, banks implement several security measures - including encryption, firewalls, multi-factor authentication, biometric verification, and secure socket layers (SSL). They also deploy real-time fraud detection systems and Al-driven monitoring technologies to swiftly identify suspicious activities.The Reserve Bank of India (RBI) and additional regulatory bodies have promulgated directives to enhance cyber resilience and require regular security audits.

Nonetheless, cyber risks such as phishing, ransomware, identity theft, and data breaches persistently escalate. Numerous assaults aim at users via

counterfeit emails, hyperlinks, or deceptive applications. Consequently, client awareness is crucial. Individuals have to consistently refresh their passwords, refrain from disclosing OTPs, and utilize only authorized banking sites.

In summary, digital security constitutes the foundation of contemporary banking. As the financial industry evolves digitally, it is imperative to provide strong cybersecurity and ongoing vigilance to safeguard both clients and institutions from cybercrime and to uphold confidence in the digital banking environment.

(vii) Fintech collaboration:- Fintech is employed in banking for services such as which digital payments, mobile and online banking, and automated loan processes which enhanced the efficiency and customer experience. It promotes financial inclusion via accessible mobile applications and assists banks in minimizing operational expenses and improving risk management, hence augmenting competitiveness.

Major applications of fintech in banking are Digital and Mobile Banking. Fintech facilitates banking via mobile applications and online platforms, permitting users to execute transactions, manage accounts, and receive assistance without the necessity of visiting a physical branch.

(i) **Payments & Transfers:-** It enables digital payment solutions such as mobile wallets and streamlines expedited, frequently more economical, monetary transfers via services like IMPS, NEFT, and RTGS.

(ii) The Unified Payments Interface (UPI) has transformed the digital payment ecosystem in India. Initiated by the National Payments Corporation of India (NPCI) in 2016, UPI facilitates instantaneous monetary transfers between bank accounts via mobile devices, utilizing a straightforward Virtual Payment Address (VPA). It obviates the necessity of inputting extensive account information, hence facilitating rapid, secure, and convenient transactions. Currently, UPI serves as the foundation of India's digital economy. It facilitates peer-to-peer and merchant payments, bill payments, and international transactions. Widely used applications such as Google Pay, PhonePe, Paytm, and BHIM have rendered UPI accessible to millions, including individuals in rural regions. The system's interoperability among institutions and platforms has enhanced financial inclusion.

(iii) **Loan Processing:** Artificial intelligence and data analytics are employed to optimize the loan procedure, expediting applications and enhancing the efficiency of credit determinations. This encompasses novel approaches such as Buy Now, Pay Later (BNPL).

(iv) **client Service:** Financial institutions employ chatbots to deliver round-the- clock client assistance, resulting in expedited solutions to frequently asked questions.

(v) Automation streamlines numerous internal banking operations, hence diminishing operational expenses and enhancing overall job efficiency.

(vi) **Investment and Wealth Management:** Fintech platforms enable individuals to invest in stocks and other assets via their mobile devices, thereby democratizing access to wealth management services.

(viii) Sustainable and green banking:- Due to digitization and minimum paper work now present trend is promoting the green banking. Customers need not to fill and form and stand in the que for various banking work. Hence Sustainable and green banking is a paradigm shift that incorporates Environmental, Social, and Governance (ESG) concepts into every facet of a bank's operations, products, and services. This is a significant and escalating trend, influenced by global climate change, increased public awareness, and changing legal frameworks. This paradigm change transcends basic operational eco-efficiency and actively directs private investment towards sustainable, low-carbon economic endeavors. There are the following benefits of green and sustainable banking:-

(i) Operational ecological efficiency:- Banks are diminishing their internal environmental impact by adopting paperless transactions, utilizing renewable energy sources such as solar-powered ATMs, implementing better waste management, and enhancing energy efficiency in their branches through initiatives like LED lighting.

(ii) Responsible and ethical financing:- Financial institutions serve as gatekeepers of capital by including ESG factors into their lending choices. This entails evaluating clients for adherence to environmental regulations, limiting funding for detrimental sectors, and offering favorable conditions for initiatives that yield beneficial environnmental outcomes.

(iii) **Green bonds:-** Fixed-income securities designated solely for financing environmentally sustainable initiatives, like renewable energy and green infrastructure.

(iv) **Green loans:-** Funding for environmentally responsible initiatives, energy-efficient home loans for electric automobiles, encompassing improvements, and sustainable company endeavours.

(v) **Green mortgages:-** Financial instruments that incentivize borrowers for acquiring or refurbishing energy-efficient residences.

(vi) **Eco-friendly savings accounts:-** Financial products that direct funds towards environmentally sustainable initiatives or yield returns depending on ecological standards.

(vii) Banks are allocating funding to environmentally sustainable initiatives, including sustainable agriculture, clean technologies, and renewable energy projects. The adoption of fintech and technology is essential for sustainable banking, as it improves transparency and efficiency. Innovations encompass data analytics for ESG evaluations, blockchain for monitoring green bonds, and digital platforms for regulatory compliance reporting.

(vii) **Risk mitigation:** By incorporating ESG considerations, banks can more effectively manage financial risks linked to climate change, including physical damage from extreme weather occurrences and transition risks stemming from policy alterations. This enhances the resilience and stability of investment portfolios.

(ix) **Improved brand perception and competitive edge:-** Adopting sustainable initiatives enables banks to cultivate trust and appeal to environmentally aware clients and investors. Publicly exhibiting a dedication to sustainability enhances a bank's corporate social responsibility (CSR) and long-term competitiveness.

(ix) **Innovative Customer oriented services:-** Cutting-edge, customer-centric banking services utilize technology such as artificial intelligence, mobile applications, and biometrics to provide tailored experiences, convenience, and anticipatory assistance. Notable instances encompass AI-driven chatbots,

instantaneous personalized promotions, omnichannel support, self-service kiosks, and biometric security to augment both efficiency and security for the client.There are the following innovative tools:-

(i) **Other innovative tools:-** Latest Chatbots driven by artificial intelligence: Offer round-the-clock, immediate assistance for diverse banking activities such as balance inquiries and payment processing. Eg EVA for HDFC bank, SIA for SBI, iPal for icici, Aditi for bank of baroda.

Applications for mobile banking: Provide ubiquitous access to banking services, anticipating that banks will utilize data from these applications to enhance their offers.

(ii) **Self-service kiosks//TMs facilitate** rapid consumer transactions, check deposits, and assistance with digital products, eliminating the need to wait in line.

(iii) **Omnichannel experience:** Deliver a uniform and uninterrupted banking experience across all platforms, including in-branch services, websites, mobile applications, and call centers.

(iv) **Digital collaboration instruments:-** Facilitate safe co-browsing and document sharing between clients and advisers, transforming digital encounters into advice prospects.

(v) **Enhanced security Biometrics:-** Employ facial recognition, fingerprint scanning, and additional biometric techniques for secure authentication and fraud mitigation.

(vi) Through application of machine learning Preventing found detection is Possible. It Can notice even the Customer behavior to identify any abnormality connected with the Financial transaction.

(X) **Neo banking** denotes a banking service that is wholly digital, without any physical branches, and operates exclusively via mobile applications and internet platforms. These financial firms provide services such as checking and savings accounts, payments, and loans, frequently with reduced fees and superior interest rates compared to conventional banks, attributable to diminished overhead expenses. Numerous neobanks collaborate with conventional banks to deliver regulated services and ensure customer deposit protection.

Major Charters tics of neo banking:-

(i) **Exclusively digital:-** Neobanks function only in a digital environment, with services available via a mobile application or website.

(ii) **Absence of physical branches:-** They circumvent the substantial operating expenses linked to the upkeep of physical banking locations.

Reduced costs and elevated rates: The financial advantages derived from the absence of physical sites can be transferred to customers via diminished fees and increased interest rates on savings.

(iii) **Technology-oriented experience:** They frequently offer a more efficient, user-centric interface with functionalities such as budgeting tools, real-time alerts, and analytical insights.

(iv) **Collaborations with conventional financial institutions:** Numerous neobanks collaborate with chartered banks to manage licensed operations such as accepting deposits and offering FDIC insurance, although they often lack their own banking license.

(v) **Diverse services:** They provide an extensive array of products, encompassing checking and savings accounts, money transfers, and loans.

(XI) Bancassurance become a popular service:- It is a contemporary financial service that integrates banking and insurance functions. This denotes the arrangement in which a bank markets insurance products-such as life, health, or general insurance-on behalf of an insurance provider. This collaboration enables banks to serve as intermediaries, providing insurance services to their current clientele via branches, websites, or mobile applications. Bancassurance primarily aims to offer customers the convenience of accessing both banking and insurance services in a single location. If Provides benefits to the all Parties or Stakeholders : Through insurance business bank generates Supplementary income vin Commissions and it also Provides extension to the Customer base Wathout any additional Major operational cost. Simultaneously customers obtain reliable and readily available and competitive insurance solutions. Various bancassurance models exist, including the referral model, corporate agency model, and integrated model. In India, prominent banks such as SBI, HDFC Bank, and ICICI Bank have partnerships with

big insurers to provide a range of insurance. The Insurance Regulatory and Development Authority of India (IRDAI) oversees these arrangements to guarantee equitable practices and transparency.

In the current competitive financial landscape, bancassurance has emerged as a potent instrument for enhancing financial inclusion and delivering comprehensive financial solutions to customers in a convenient and efficient manner.

(XII) Cryptocurrency and Blockchain Technology in Banking. In recent years, bitcoin and blockchain technology have surfaced as significant breakthroughs in the banking sector. These technologies are revolutionizing banking operations and the execution of financial transactions worldwide.

A cryptocurrency is a digital currency that employs encryption methods to safeguard transactions and regulate the generation of new units. It functions autonomously, devoid of any central authority, including governmental bodies or central banks. Notable instances comprise Bitcoin, Ethereum, and Ripple. The Reserve Bank of India (RBI) has launched the Central Bank Digital Currency (CBDC) as a government-supported digital currency to enhance secure and efficient digital transactions.

The blockchain underlying cryptocurrency is a decentralized digital ledger that documents all transactions across a network of computers. Every transaction is recorded in a block, and all blocks are interconnected, creating a secure and immutable chain. This technology offers transparency, security, and immutability, which are essential attributes for contemporary banking systems. In the banking sector, blockchain facilitates expedited cross-border transfers, mitigates fraud, and enables smart contracts that execute autonomously upon the fulfillment of specified criteria. It enhances Know Your Customer (KYC) protocols and assists banks in preserving precise and transparent records. Nonetheless, difficulties including legislative ambiguity, price volatility of cryptocurrencies, and cybersecurity threats persist as substantial concerns. Notwithstanding these apprehensions, the incorporation of blockchain and digital currencies is seen as a progression towards a more transparent, efficient, and inclusive banking system.

In summary, cryptocurrencies and blockchain technology signify the future of digital finance. By carefully implementing these technologies, banks can augment security, decrease expenses, and increase client trust in financial documentation.

Exercise :

Q.1 MCQs (Choose the correct option)

1. Which of the following best describes "Digital Banking"?

   (A) Banking services limited to physical branches only

   (B) Banking services provided through internet and digital platforms

   (C) Only ATM-based services

   (D) Manual processing of banking transactions

   Answer: (B) Banking services provided through internet and digital platforms

2. What is the primary objective of the Unified Payments Interface (UPI)?

   (A) To replace physical branches

   (B) To enable instant fund transfer through mobile devices

   (C) To provide loans to small businesses

   (D) To promote foreign exchange trading

   Answer: (B) To enable instant fund transfer through mobile devices

3. Which of the following is NOT a feature of Neo Banking?

   (A) Entirely digital operations

   (B) No physical branch presence

   (C) High dependency on fintech platforms

   (D) Mandatory physical documentation

   Answer: (D) Mandatory physical documentation

4. The concept of "Green Banking" primarily focuses on:

   (A) Profit maximization through digital means

   (B) Reducing environmental impact through sustainable practices

   (C) offering agricultural loans only

   (D) Encouraging use of credit cards

   Answer: (B) Reducing environmental impact through sustainable practices

5. Which of the following is an initiative under the Reserve Bank of lndia to promote financial inclusion?

   (A) BHIM App

   (B) Bharat Bill Payment System (BBPS)

   (C) Pradhan Mantri Jan Dhan Yojana (PMJDY)

   (D) RuPay Card

   Answer: (C) Pradhan Mantri Jan Dhan Yojana (PMJDY)

6. What is the main purpose of Open Banking?

   (A) Allowing banks to share customer data securely with third-party service providers (with consent)

   (B) Closing non-performing bank branches

   (C) Promoting only government banks

   (D) Increasing bank secrecy laws

   Answer: (A) Allowing banks to share customer data securely with third-party service providers (with consent)

7. Which of the following technologies is widely used for enhancing data security in modern banking?

   (A) Blockchain (B) Typewriters

   (C) Manual ledger entry (D) Fax-based authentication

   Answer: (A) Blockchain

8. Which of the following best describes Payment Banks in India?

   (A) Banks that can issue credit cards and loans

   (B) Banks that accept deposits and provide limited services like remittances and bill payments

   (C) Banks that serve only large corporations

   (D) Banks dealing only in foreign exchange

   Answer: (B) Banks that accept deposits and provide limited services like remittances and bill payments

9. Which of the following statements is TRUE about Artificial Intelligence (AI) in banking?

   (A) AI is used only for entertainment purposes

   (B) AI helps in fraud detection, customer service, and risk management

   (C) AI is replacing all human staff in banks

   (D) AI cannot analyze financial data

   Answer: (B) AI helps in fraud detection, customer service, and risk management

10. The introduction of Central Bank Digital Currency (CBDC) by the RBl aims to:

    (A) Replace the rupee completely

    (B) Provide a digital form of legal tender issued by the central bank

    (C) Encourage the use of cryptocurrency like Bitcoin

    (D) Reduce financial regulation

    Answer: (B) Provide a digital form of legal tender issued by the central bank

Q.2 Short Answer Questions :

1. What is meant by Digital Banking?
2. Define Neo Banking and mention one of its key characteristics.
3. What is the main objective of Unified Payments Interface (UPI)?

4. Explain the term Green Banking in brief.
5. What is the role of Artificial Intelligence (AI) in modern banking?

Q.3 Long Answer Questions

1. Explain in detail the concept of Digital Banking. Discuss its features, advantages, and how it has transformed the customer experience in India.
2. Discuss the role of Financial Technology (FinTech) in the Indian banking sector. Include examples of FinTech innovations such as mobile wallets, UPI, and digital lending platforms.
3. Describe the concept and importance of Green Banking. How does it contribute to environmental sustainability and responsible banking practices?
4. What are the emerging trends in the banking? Discuss in details in the present context.
5. Evaluate the impact of Artificial Intelligence (AI), Blockchain, and Big Data Analytics on banking operations in India. Explain how these techno logies are improving efficiency, customer service, and security.

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Unit - 14
Risk Management in Banking & Insurance

14.1 Introduction

14.2 Meaning of Risk and Uncertainty

14.3 Banking Risks

14.3.1 Credit Risk

14.3.2 Liquidity Risk

14.3.3 Operational Risk

14.3.4 Market risk

14.4 Insurance Risks

14.4.1 Moral Hazard

14.4.2 Physical Hazard

14.4.3 Adverse Selection

14.5 Risk Mitigation Techniques

14.5.1 Diversification

14.5.2 Reinsurance

14.5.3 Hedging

14.6 Importance of Risk Management for Stability of Financial System

14.7 Financial Frauds: Detection and Prevention

Exercise

14.1 Introduction :

In today's fast-changing economic and financial environment, risk has become an unavoidable part of banking and insurance activities. Banks and insurance companies deal with large amounts of money, public savings, investments, loans, and claims on a daily basis. Because of this, they face various types of uncertainties such as market fluctuations, credit defaults, operational failures, frauds, natural

disasters, and economic crises. Managing these uncertainties in a systematic way is known as risk management. Risk management in banking and insurance refers to the process of identifying, analyzing, measuring, monitoring, and controlling risks to reduce potential losses and ensure the financial stability of the institution. The main objective of risk management is not to completely eliminate risk, but to understand risks clearly and manage them efficiently so that the organization can achieve its goals safely. In the banking sector, risks arise mainly from lending activities, investments, interest rate changes, foreign exchange fluctuations, and operational processes. For example, when a bank gives loans to customers, there is always a possibility that the borrower may fail to repay the loan. Similarly, changes in interest rates or currency values can affect the bank's profitability. Therefore, banks must carefully evaluate and manage risks to protect depositors' money and maintain public confidence.

In the insurance sector, risk management plays an even more critical role, Insurance companies exist primarily to manage risk by providing financial protection against uncertain future events such as accidents, illness, fire, theft, or natural calamities. However, insurers themselves face risks related to incorrect premium pricing, unexpected claims, investment losses, and catastrophic events. Effective risk management helps insurance companies maintain solvency, settle claims on time, and continue providing protection to policyholders.

With the growth of globalization, digital banking, online insurance services, and complex financial products, the nature of risks has become more complicated. Cyber risks, compliance risks, and reputational risks have also increased. As a result, modern banks and insurance companies use advanced risk management tools, regulatory guidelines, and internal control systems to handle risks effectively. In India, regulatory bodies such as the Reserve Bank of India (RBI) for banks and the Insurance Regulatory and Development Authority of India (IRDAI) for insurance companies play an important role in ensuring proper risk management practices. These regulators issue guidelines and norms to protect customers, maintain financial stability, and prevent systemic failures.

Thus, risk management is a vital function in both banking and insurance. It helps institutions survive during financial stress, improve decision-making, enhance profitability, and build trust among customers.

14.2 Meaning of Risk and Uncertainty :

In the field of banking and insurance, decision-making is always connected with the future. Since the future is unpredictable, financial institutions often face situations where outcomes are not certain. Two important concepts related to such situations are risk and uncertainty. Though these terms are often used together, they have different meanings and implications.

Meaning of Risk:

Risk refers to a situation where the outcome is uncertain, but the possible results and their probabilities can be estimated. In simple words, risk is the chance of loss or unfavorable outcome where some information is available to measure it. In banking, risk arises when banks lend money, invest funds, or deal in foreign exchange. For example, when a bank gives a loan to a customer, there is a possibility that the borrower may not repay the loan on time or may default completely. However, based on past data, credit history, and financial analysis, the bank can estimate the probability of default. This makes it a risk situation. In insurance, risk is the foundation of the business. Insurance companies assess risks such as accidents, fire, illness, or death using statistical data and probability theory. On the basis of this assessment, premiums are fixed. Since insurers can estimate the likelihood of such events, they are able to manage risk effectively. Thus, risk is measurable and manageable, and financial institutions use various tools like risk analysis, diversification, and insurance to control it.

Meaning of Uncertainty:

Uncertainty refers to a situation where the outcome is unknown and the probability of occurrence cannot be measured or predicted. In other words, uncertainty exists when there is no past data or reliable information to estimate future outcomes. In banking and insurance. uncertainty may arise due to sudden economic changes, political instability, natural disasters, pandemics, technological disruptions, or unexpected regulatory changes. For example, events like a global financial crisis or a pandemic create uncertainty because institutions cannot accurately predict their impact or frequency. Unlike risk, uncertainty cannot be easily measured or insured against. Financial institutions

can only prepare for uncertainty by maintaining reserves, adopting flexible strategies, and improving internal control systems.

Relationship between Risk and Uncertainty:

Risk and uncertainty are closely related concepts, but they are not the same. Risk exists in situations where outcomes can be predicted to some extent, while uncertainty exists where prediction is not possible. In banking and insurance, most decisions involve a mix of both risk and uncertainty. Understanding the difference between risk and uncertainty helps banks and insurance companies to make better decisions, plan effectively, and ensure long-term stability. For BBA students, this concept forms the foundation of risk management and helps in understanding how financial institutions deal with future challenges.

14.3 Banking Risks :

Banks perform many financial activities such as accepting deposits, giving loans, investing funds, and providing payment services. While carrying out these activities, banks are exposed to different types of risks. Among them, credit risk, liquidity risk, operational risk, and market risk are the most important. Understanding these risks is essential for effective risk management in banks.

14.3.1 Credit Risk:

Credit risk is the risk that a borrower may fail to repay the loan or interest amount on time or may not repay at all. It is the most common and significant risk faced by banks because lending is their primary function. Whenever a bank provides loans to individuals, businesses, or governments, there is always a possibility of default due to reasons such as business failure, loss of income, poor financial planning, or economic slowdown. For example, if a bank gives a loan to a company and the company becomes financially weak, it may not be able to repay the loan. This results in bad debts or non-performing assets (NPP_S) for the bank. To reduce credit risk, banks evaluate the creditworthiness of borrowers, analyze income and repayment capacity, take collateral, and follow strict credit policies. Proper management of credit risk helps banks protect their funds and maintain financial stability.

14.3.2 Liquidity Risk:

Liquidity risk refers to the risk that a bank may not be able to meet its short-term financial obligations when they become due. Banks accept deposits that can be withdrawn at any time, while the money is often invested in long-term loans and assets. This difference in maturity creates liquidity risk. For instance, if a large number of depositors suddenly demand their money at the same time and the bank does not have enough cash or liquid assets, it may face serious liquidity problems. Even a profitable bank can fail if it cannot manage liquidity properly. To control liquidity risk, banks maintain cash reserves, invest in easily marketable securities, and follow guidelines issued by the Reserve Bank of India (RBI). Effective liquidity management ensures smooth day-to-day operations and builds public confidence.

14.3.3 Operational Risk:

Operational risk arises due to failures in internal systems, processes, people, or external events. This type of risk is not directly related to financial transactions but to the way banking operations are carried out. Operational risk includes errors in data processing, system failures, fraud, cyber-attacks, employee negligence, and misuse of authority. For example, a technical failure in online banking systems, a data breach, or internal fraud by bank employees can lead to financial losses and damage the bank's reputation. With the increasing use of technology and digital banking, operational risk has become more significant. Banks manage this risk by improving internal controls, staff training, strong IT security systems, and regular audits. Proper management of operational risk helps in ensuring smooth and secure banking services.

14.3.4 Market Risk:

Market risk refers to the risk of loss due to changes in market variables such as interest rates, foreign exchange rates, and security prices. Banks invest funds in bonds, shares, and other financial

instruments, and any Unfavourable change in market conditions can affect the value of these investments. For example, if interest rates rise, the value of fixed- interest securities held by banks may fall, resulting in losses. Similarly, fluctuations in foreign exchange rates can affect banks involved in international trade and foreign currency transactions. Market risk is influenced by economic conditions, inflation, government policies, and global financial trends. Banks manage market risk by diversifying investments, using hedging techniques, and continuously monitoring market movements.

14.4 Insurance Risks :

Insurance companies provide financial protection against uncertain future events such as accidents, illness, fire, theft, and natural calamities. While doing so, insurers themselves face various types of risks that can affect their profitability and stability. Among these, moral hazard, physical hazard, and adverse selection are the most important risks commonly faced in the insurance business.

14.4.1 Moral Hazard:

Moral hazard refers to the risk that arises due to the dishonest or careless behavior of the insured after taking an insurance policy. Once a person knows that losses are covered by insurance, they may not take proper care to prevent damage or may even intentionally cause a loss to receive insurance benefits. For example, a person who has insured his vehicle may drive recklessly or neglect maintenance because the loss will be compensated by the insurer. In extreme cases, insured persons may make false claims or deliberately cause damage to property. Moral hazard increases the number of claims and leads to higher losses for insurance companies. To control moral hazard, insurers use strict policy conditions, deductibles, inspections, and investigation of claims. Managing moral hazard is essential to maintain fairness and sustainability in insurance operations.

14.4.2 Physical Hazard:

Physical hazard refers to the risk arising from the physical condition or nature of the insured object or person that increases the possibility of loss. It is related to visible and measurable factors that make the occurrence of loss more likely. For example, a building constructed with poor quality materials, a factory with outdated machinery, or a person with poor health habits poses a higher physical hazard. Such conditions increase the chances of fire, accidents, or illness, leading to more frequent insurance claims. Insurance companies assess physical hazards through inspections, medical tests, and surveys before issuing a policy. Proper identification and management of physical hazards help insurers fix appropriate premiums and reduce unexpected losses.

14.4.3 Adverse Selection:

Adverse selection refers to the situation where people with higher risk are more likely to buy insurance, while people with lower risk avoid it. This happens mainly due to information imbalance, where the insured knows more about their risk condition than the insurer. For instance, individuals with serious health problems are more eager to purchase health or life insurance, while healthy individuals may feel insurance is unnecessary. If insurers are unable to identify high-risk individuals correctly, they may charge lower premiums, which can lead to heavy claim pay-outs and financial losses. To reduce adverse selection, insurance companies use proposal forms, medical examinations, underwriting procedures, and waiting periods. Effective control of adverse selection ensures stability and profitability in the insurance business.

14.5 Risk Mitigation Techniques :

Risk is unavoidable in banking and insurance, but it can be reduced, controlled, and managed through proper risk mitigation techniques. Risk mitigation refers to the methods used by financial institutions to minimize the impact of potential losses arising from various risks. Among the most commonly used techniques are diversification, reinsurance, and hedging.

14.5.1 Diversification:

Diversification is a risk mitigation technique that involves spreading investments or exposures across different assets, sectors, customers, or geographical areas. The main idea behind diversification is that losses in one area can be compensated by gains or stability in another. In banking, diversification is used by lending to different types of borrowers such as individuals, businesses, and industries instead of concentrating loans in one sector. For example, if a bank gives all its loans only to the real estate sector, a slowdown in that sector may result in heavy losses. By diversifying its loan portfolio, the bank reduces overall risk. Similarly, insurance companies diversify by offering different types of policies like life, health, fire, and motor insurance. Diversification helps reduce dependence on a single source of income and improves financial stability.

14.5.2 Reinsurance:

Reinsurance is a risk mitigation technique mainly used by insurance companies, where one insurance company transfers a part of its risk to another insurance company known as the reinsurer. In simple terms, it is "insurance of insurance companies." Insurance companies face the risk of very large claims, especially in cases of natural disasters, accidents, or pandemics. By taking reinsurance, insurers can share their risk and avoid huge financial losses. For example, if an insurance company has issued many policies in a flood-prone area, it may transfer part of this risk to a reinsurer. Reinsurance helps insurers maintain solvency, stabilize earnings, and increase their capacity to underwrite more policies. It plays a vital role in protecting insurance companies against catastrophic losses.

14.5.3 Hedging:

Hedging is a risk mitigation technique used to protect against losses due to changes in market variables such as interest rates, foreign exchange rates, and prices of securities. It involves using financial instruments like futures, options, swaps, or forward contracts to

reduce potential losses. In banking, hedging is commonly used to manage interest rate risk and foreign exchange risk. For example, a bank exposed to fluctuations in foreign currency rates may use forward contracts to lock in a fixed exchange rate and avoid losses. Similarly, insurance companies hedge their investment portfolios to protect against market volatility. Though hedging may limit potential profits, it provides stability and predictability, which is essential for financial institutions.

14.6 Importance of Risk Management for Stability of the Financial System :

Risk management plays a crucial role in maintaining the stability, safety, and smooth functioning of the financial system. Banks, insurance companies, and other financial institutions are interconnected, and failure of one institution can affect the entire economy.

The importance of risk management can be explained as follows:

1. **Protection of Depositors' and Policyholders' Funds:** Risk management helps banks and insurance companies protect the money of depositors and policyholders. Banks hold public savings in the form of deposits, while insurance companies collect premiums to provide future protection. If risks such as credit risk, liquidity risk, or claim risk are not properly managed, institutions may suffer heavy losses. Effective risk management ensures that these institutions remain financially sound and are able to return deposits and settle insurance claims on time, which strengthens public confidence in the financial system.

2. **Prevention of Financial Failures and Crises:** Poor risk management has been one of the major reasons behind financial crises and bank failures in the past. When financial institutions take excessive risks without proper control, it can lead to insolvency and collapse. Risk management helps in early identification and control of potential threats, thereby preventing large-scale failures. By reducing the chances of institutional collapse, risk management contributes to overall financial stability and economic growth.

3. **Ensures Smooth Functioning of Financial Institutions:** Banks and insurance companies perform daily financial operations such as lending, investing, payments, and claim settlement. Risk management helps in identifying operational, market, and liquidity risks that can disrupt these activities. By managing risks effectively, institutions can continue their operations smoothly even during uncertain economic conditions. This uninterrupted functioning is essential for maintaining stability in the financial system.

4. **Promotes Confidence in the Financial System:** A stable financial system depends largely on the trust of customers, investors, and the public. When people believe that banks and insurance companies are well-managed and capable of handling risks, they feel confident in depositing money and purchasing insurance policies. Proper risk management builds credibility and trust, which encourages savings, investments, and economic activities, thereby strengthening the financial system.

5. **Supports Regulatory Compliance and Discipline:** Financial institutions are required to follow risk management guidelines issued by regulatory authorities such as the Reserve Bank of India (RBI) and the Insurance Regulatory and Development Authority of India (IRDAI). Risk management helps institutions comply with these regulations and maintain financial discipline. Regulatory compliance reduces unethical practices, excessive risk-taking, and systemic threats, which enhances the stability of the financial system.

6. **Helps in Managing Economic Uncertainties:** Economic conditions are constantly changing due to inflation, interest rate fluctuations, technological changes, and global events. Risk management helps financial institutions prepare for such uncertainties by maintaining reserves, diversifying portfolios, and adopting flexible strategies. This preparedness reduces the impact of economic shocks and helps maintain stability during periods of financial stress.

7. **Encourages Sustainable Growth of the Financial System:** Risk management ensures that growth in banking and insurance is balanced

and sustainable. Instead of focusing only on short-term profits, institutions that follow proper risk management practices aim for long-term stability. This prevents reckless expansion and promotes healthy growth of the financial system, which is essential for overall economic development.

14.7 Financial Frauds: Detection and Prevention

With the rapid growth of banking, insurance, and digital financial services, financial frauds have become a serious threat to the stability of the financial system. Financial fraud not only causes monetary losses to institutions and customers but also damages trust and confidence in the banking and insurance sector. Therefore, understanding financial frauds and the methods of their detection and prevention is an important part of risk management.

Meaning of Financial Frauds:

Financial fraud refers to any illegal or dishonest activity carried out to gain financial benefit by deceiving individuals, banks, insurance companies, or other financial institutions. Fraud involves intentional misrepresentation, concealment of facts, or abuse of trust for personal gain. In banking and insurance, common examples of financial frauds include loan frauds, insurance claim frauds, identity theft, credit card fraud, cyber frauds, forgery of documents, and misuse of digital payment systems. Such frauds increase financial losses and weaken the stability of the financial system.

Detection of Financial Frauds:

Detection of financial frauds refers to the timely identification of fraudulent activities in banking and insurance operations before they cause serious financial damage. Financial institutions continuously monitor transactions and customer behavior to identify unusual patterns such as sudden large withdrawals, repeated failed login attempts, abnormal loan activities, or suspicious insurance claims. With the increasing use of digital platforms, banks and insurance companies rely heavily on technology-based systems like data analytics, artificial intelligence, and automated fraud detection software to spot irregular activities. Regular internal audits, inspections, and reconciliation of accounts also help in identifying internal frauds and operational weaknesses.

In many cases, frauds are detected through customer complaints and alerts, where customers report unauthorized transactions or suspicious communication. Early detection helps institutions take immediate action, minimize losses, and protect customer interests.

Prevention of Financial Frauds:

Prevention of financial frauds involves taking proactive measures to stop frauds from occurring in the first place. Banks and insurance companies establish strong internal control systems, including proper authorization procedures, segregation of duties, and regular supervision, to reduce the chances of misuse and fraud. The use of secure technologies such as two-factor authentication, encryption, biometric verification, and secure digital platforms plays a vital role in preventing cyber and payment frauds. Customer awareness is equally important, and institutions regularly educate customers about phishing, fake calls, OTP misuse, and online scams to help them protect themselves. Regulatory guidelines issued by authorities like the Reserve Bank of India (RBI) and IRDAI ensure that financial institutions follow strict compliance and ethical practices. Employee training and a strong ethical culture further help in preventing frauds by encouraging responsible behavior and vigilance.

Exercise:

Q.1 Answer the following questions in detail:

1. Define risk and uncertainty. Explain the difference between risk and uncertainty with suitable examples from banking and insurance.
2. Explain in detail the major banking risks.
3. Describe the major insurance risks such as moral hazard, physical hazard, and adverse selection.
4. Explain the risk mitigation techniques used in banking and insurance.
5. Explain the concept of risk management in banking and insurance. Discuss its importance for the stability of the financial system.
6. Explain the concept of financial frauds in banking and insurance.

Q.2 Answer the following questions in short:

1. Define risk.
2. What is credit risk?
3. Explain liquidity risk.
4. What is moral hazard in insurance?
5. Explain physical hazard.
6. Define diversification as a risk mitigation technique.
7. Explain hedging.
8. What is financial fraud?

Q.3 Multiple Choice Questions (MCQS):

1. Uncertainty arises when:

   a) Probability can be calculated

   b) Future outcomes cannot be predicted

   c) Risk is insured

   d) Loss is certain

   Answer: b) Future outcomes cannot be predicted

2. Which risk arises due to failure of borrowers to repay loans?

   a) Market risk b) Operational risk

   c) Credit risk d) Liquidity risk

   Answer: c) Credit risk

3. The risk of inability to meet short-term obligations is called:

   a) Credit risk b) Liquidity risk

   c) Market risk d) Insurance risk

   Answer: b) Liquidity risk

4. Losses due to changes in interest rates and exchange rates fall under:

   a) Credit risk b) Market risk

   c) Operational risk d) Physical risk

   Answer: b) Market risk

5. Careless behavior of insured after taking insurance is known as:

   a) Physical hazard b) Moral hazard

   c) Adverse selection d) Market risk

   Answer: b) Moral hazard

6. Poor condition of property increasing loss chances is called:

   a) Moral hazard b) Credit risk

   c) Physical hazard d) Liquidity risk

   Answer: c) Physical hazard

7. Insurance taken by insurers to protect themselves is known as:

   a) Hedging b) Diversification

   c) Reinsurance d) Co-insurance

   Answer: c) Reinsurance

8. Use of derivatives to reduce market risk is called:

   a) Diversification b) Hedging

   c) Reinsurance d) Auditing

   Answer: b) Hedging

9. Which of the following helps in early fraud detection?

   a) Ignoring transactions b) Internal audits

   c) Reducing controls d) Manual processes only

   Answer: b) Internal audits

10. RBI and IRDAI mainly work to:

    a) Increase frauds b) Promote unethical practices

    c) Regulate and manage risks d) Stop banking activities

    Answer: c) Regulate and manage risks

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યુનિવર્સિટી ગીત

સ્વાધ્યાયઃ પરમં તપઃ
સ્વાધ્યાયઃ પરમં તપઃ
સ્વાધ્યાયઃ પરમં તપઃ

શિક્ષણ, સંસ્કૃતિ, સદ્‌ભાવ, દિવ્યબોધનું ધામ
ડૉ. બાબાસાહેબ આંબેડકર ઓપન યુનિવર્સિટી નામ;
સૌને સૌની પાંખ મળે, ને સૌને સૌનું આભ,
દશે દિશામાં સ્મિત વહે હો દશે દિશે શુભ-લાભ.

અભણ રહી અજ્ઞાનના શાને, અંધકારને પીવો ?
કહે બુદ્ધ આંબેડકર કહે, તું થા તારો દીવો;
શારદીય અજવાળા પહોંચ્યાં ગુર્જર ગામે ગામ
ધ્રુવ તારકની જેમ ઝળહળે એકલવ્યની શાન.

સરસ્વતીના મયૂર તમારે ફળિયે આવી ગહેકે
અંધકારને હડસેલીને ઉજાસના ફૂલ મહેંકે;
બંધન નહીં કો સ્થાન સમયના જવું ન ઘરથી દૂર
ઘર આવી મા હરે શારદા દૈન્ય તિમિરના પૂર.

સંસ્કારોની સુગંધ મહેંકે, મન મંદિરને ધામે
સુખની ટપાલ પહોંચે સૌને પોતાને સરનામે;
સમાજ કેરે દરિયે હાંકી શિક્ષણ કેરું વહાણ,
આવો કરીયે આપણ સૌ
ભવ્ય રાષ્ટ્ર નિર્માણ...
દિવ્ય રાષ્ટ્ર નિર્માણ...
ભવ્ય રાષ્ટ્ર નિર્માણ

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