BANKING , INSURANCE AND RISK MANAGEMENT (MNG204)

7Th SEM

BY Dr. Sudeshna Dutta
Asst. Prof(Finance)
BIITM

Unit-1.

Banking & Insurance.

BIITM

Evolution of banking.

Introduction.

Globally, the story of banking has much in common, as it evolved with the moneylenders accepting deposits and issuing receipts in their place. According to the Central Banking Enquiry Committee (1931), money lending activity in India could be traced back to the **Vedic period,** i.e., 2000 to 1400 BC. The existence of professional banking in India could be traced to the 500 BC. **Kautilya's Arthashastra**, dating back to 400 BC contained references to creditors, lenders and lending rates. Banking was fairly varied and catered to the credit needs of the trade, commerce, agriculture as well as individuals in the economy. 1. An extensive network of Indian banking houses existed in the country connecting all cities/towns that were of commercial importance. They had their own inland bills of exchange or hundis which were the major forms of transactions between Indian bankers and their trans-regional connections.

2 Banking practices in force in India were vastly different from the European counterparts. The dishonoring of hundis was a rare occurrence. Most banking worked on mutual trust, confidence and without securities and facilities that were considered essential by British bankers. . 3 Banking regulationalso had a rich tradition and evolved along with banking in India. In fact, the classic „Arthashastra" also had norms for banks going into liquidation. If anyone became bankrupt, debts owed to the State had priority over other creditors.

Pre-Independence Banking History

The pre-independence period was largely characterised by the existence of private banks organised as joint stock companies. Most banks were small and had private shareholding of the closely held variety. They were largely localised and many of them failed. They came under the purview of the Reserve Bank that was established as a central bank for the country in 1935. But the process of regulation and supervision was limited by the provisions of the Reserve Bank of India Act, 1934 and the Companies Act, 1913. The indigenous bankers and moneylenders had remained mainly isolated from the institutional part of the system. The usurious network was still rampant and exploitative. Co-operative credit was the only hope for credit but the movement was successful only in a few regions.

The origin of modern Banking in India dates back to the 18th century. Banking Concept in India was brought by Europeans.

Bank of Hindustan was established in 1770 and it was the first bank at Calcutta under Europeanmanagement. It was liquidated during the period of 1829-32.

General Bank of India was established in 1786 but failed in 1791.

On June 2, 1806 the Bank of Calcutta was established in Calcutta. It was the first Presidency Bank during the British Raj. On January 2, 1809 the Bank of Calcutta renamed as the **Bank of Bengal.**

On 15th April, 1840 the second presidency Bank, **Bank of Bombay** was established in Bombay.

On 1 July 1843 the **Bank of Madras** was established in Madras, now Chennai. It was the third Presidency Bank during the British Raj.

These Presidency banks worked as quasi central banks in India for many years under British Rule.

Allahabad Bank was established in 1865 and working even today. It is the oldest Joint Stock bank inIndia but it was not the first thought. That honour belongs to the Bank of Upper India, which was established in 1863 but this bank became defunct in 1913.

Note: Allahabad Bank is the oldest Public Sector Bank in India having branches all over India andserving the customers for the last 145 years.

HSBC established itself in Bengal in 1869.

Calcutta was the most active trading port in India, mainly due to the trade of the British Empire, and sobecame a banking center.

In 1881, Oudh Commercial Bank was established at **Faizabad.** It was the first bank of limited liabilitymanaged by Indians. After Independence, in 1958 this bank failed.

In 1895 Punjab National Bank was established in Lahore in Punjab province of Undivided India. It wasthe first bank purely managed by Indian.

The first Indian commercial bank which was wholly owned and managed by Indians was **CentralBank of India** which was established in **1911**.

Note: Central bank of India was also called India‟s First Truly Swadeshi bank.

The **Swadeshi movement** inspired local businessmen and political figures to found banks of and for the Indian community. The period between 1906 and 1911 thousands of Banks were established in India. Many of those banks established then have survived to the present such **as Bank of India, Corporation Bank, Indian Bank, Bank of Baroda, Canara Bank and Central Bank of India.**

At least 94 banks in India failed between 1913 and 1918 due to economic crisis during World War I.

On 27th January, 1921 **Bank of Calcutta, Bank of Madras and Bank of Bombay were amalgamatedto form Imperial Bank of India.**

Post- Independence Banking History.

The early years of independence (1947 to 1967) posed several challenges with an underdeveloped economy presenting the classic case of market failure in the rural sector, where information asymmetry limited the foray of banks. Further, the non-availability of adequate assets made it difficult for people to approach banks. With the transfer of undertaking of Imperial Bank of India to State Bank of India (SBI) and its subsequent massive expansion in the under-banked and unbanked centres spread institutional credit into regions which were un-banked heretofore. Proactive measures like credit guarantee and deposit insurance promoted the spread of credit and savings habits to the rural areas. There were, however, problems of connected lending as many of the banks were under the control of business houses.

Government took major steps in the Indian Banking Sector Reform after independence. In 1955, it nationalized Imperial Bank of India with extensive banking facilities on a large scale especially in rural and semi urban areas. It formed State Bank of India to act as the principal agent of RBI and to handle banking transactions of the Union and State Governments all over the country.

Seven banks forming subsidiary of State Bank of India were nationalized on 19th July 1959.

In 1969, major process of nationalization was carried out. It was the effort of the then Prime Minister of India, Mrs. Indira Gandhi 14 major commercial banks in the country was nationalized.

Second phase of nationalization in Indian Banking Sector Reform was carried out in 1980 with six more banks. This step brought 80% of the banking segment in India under Government ownership.

The following are the steps taken by the Government of India to Regulate Banking Institutions in the country.

i. 1949: Enactment of Banking Regulation Act & Nationalization of RBI.

ii. 1955: Nationalization of State Bank of India.

iii. 1959: Nationalization of SBI subsidiaries.

iv. 1961: Insurance cover extended to deposits.

v. 1969: Nationalization of 14 major banks.

vi. 1971: Creation of credit guarantee corporation.

vii. 1975: Creation of regional rural banks.

viii. 1980: Nationalization of 6 banks with deposits over 200 crore.

After the nationalization the branches of the public sector banks in India rose to approximately 800% and deposits and advances took a huge jump by 11,000%. Banking in the sunshine of Government ownership gave the public implicit faith and immense confidence about the sustainability of these institutions.

The third phase of evolution of banking in India started in 1980s generally and 1991 onwards particularly. This period is marked by consolidation, diversification and liberalization of the banking industry. The financial sector reforms got momentum with the recommendations of various committees such as Chakravarty Committee (1985), Vaghul Committee (1987) and most notably by Narasimham Committee (1991), which is also known as first Narasimham Committee.

The first question is- why the reforms were needed in the first place?

The financial sector reforms are one of the most important policy agenda of the authorities around the world. There are several reasons for the same. Firstly, the reforms are needed to increase the efficiency of financial resource mobilizations and generate higher levels of growth. Secondly, financial sector reforms are utmost necessary for the macro-economic stability. India saw its worst economic crisis in the decade of 1980s. In 1991, India embarked into an era of Economic Reforms which led to liberalization, privatization and globalization of the Indian Economy. The financial sector reforms were an integral part to these reforms.

It was the first Narasimham Committee that gave a blueprint of banking sector reforms. On the basis of these recommendations, the government launched a comprehensive financial sector liberalization programme which included interest rates liberalization, reduction of reserved rations, reduced government control in banking operations and establishment of a market regulatory framework. Another outcome of liberalization was the dismantling of prohibitions against foreign direct investment.

Some more outcomes of reforms that impacted the banking sector were:-

•Steps were taken to move to a market determined exchange rate system, and a unified exchange rate wasachieved in the 1990s itself

•The government also released a slew of norms pertaining to asset classification, income recognitions,capital adequacy etc which the banks had to comply with

•Current account convertibility was allowed for the Rupee in accordance with IMF conditions

• Nationalized banks were allowed to raise funds from the capital markets to strengthen their capital base

•The lending rates for commercial banks was deregulated, thereby freeing them to lend more or as theysaw fit

•Also, banks were allowed to fix their own interest rates on domestic term deposits that matures withintwo years

•Customers were encouraged to move away from physical cash, as RBI issued guidelines to the bankspertaining to the issuance of debit cards and smart cards

•The process of introducing computerisation in all branches of banks began in 1993 in line with the Committee on Computerization in Banks‟ recommendations, which had been submitted in 1989

•FII (Foreign Institutional Investors) were allowed to invest in dated Government Securities

•The Foreign Exchange Management Act (FEMA) was enacted in 1999 and effectively repudiated the Foreign Exchange Regulation Act (FERA) of 1973. FEMA enabled the development and maintenance of the Indian foreign exchange markets and facilitated external trade and payments

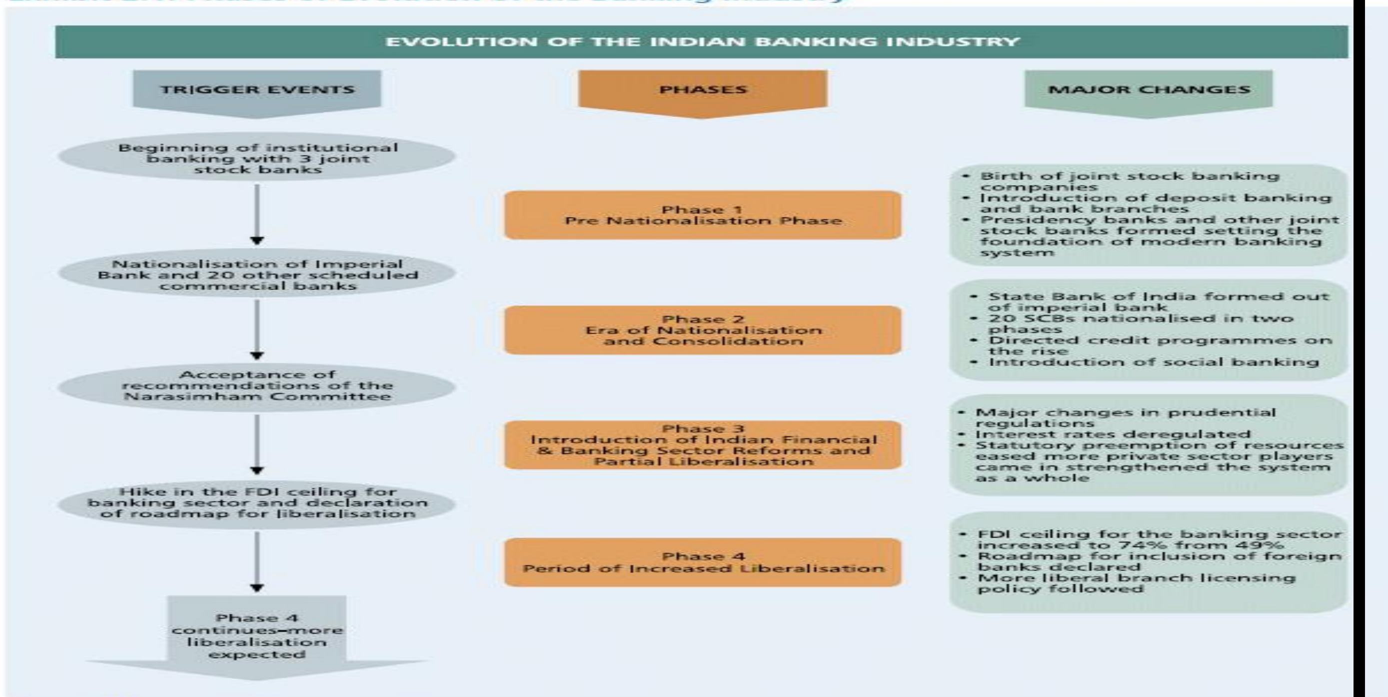
•The NSE (National Stock Exchange) began its operations in 1994

•RBI began the practice of auctioning Treasury Bills spanning 14 days and 28 days

Capital index bonds were introduced in India for the first time. The newly adopted policy of liberalisation led the RBI to provide licenses to conduct banking operations to some private banks such as ICICI Bank, HDFC Bank etc. The growth of industries and expansion of economic operations also revitalised banking operations, which had to keep up with the demand for various banking operations by the flourishing and even nascent enterprises.

Bankers also responded to the renewed demand from the industrial sector and regular customers. New technology and customer-friendly measures were adopted by bankers to attract and retain customers. TheBanking Ombudsman was established, so that consumers could have a forum to address their grievances against banks and the services they provided.

Exhibit 2.1: Phases of Evolution of the Banking Industry



Source: D&B Industry Research Service

Bank as Financial intermediary

A financial intermediary is an institution or individual that serves as a conduit for parties in a financial transaction According to classical and neoclassical economics, as well as most mainstream economics, afinancial intermediary is typically a bank that consolidates deposits and uses the funds to transform theminto loans. .

Through the process of financial intermediation, certain assets or liabilities are transformed into different assets or liabilities. As such, financial intermediaries channel funds from people who have extra money or surplus savings (savers) to those who do not have enough money to carry out a desired activity (borrowers).

A financial intermediary is typically an institution that facilitates the channeling of funds between lenders and borrowers indirectly. That is, savers (lenders) give funds to an intermediary institution (such as a bank), and that institution gives those funds to spenders (borrowers). This may be in the form of loans or mortgages. Alternatively, they may lend the money directly via the financial markets, and eliminate the financial intermediary, which is known as financial disintermediation.

In the context of climate finance and development, financial intermediaries generally refer to private sector intermediaries, such as banks, private equity, venture capital funds, leasing companies, insurance and pension funds, and micro-credit providers. Increasingly, international financial institutions provide funding via companies in the financial sector, rather than directly financing projects.

Functions performed by financial intermediaries

The hypothesis of financial intermediaries adopted by mainstream economics offers the following three major functions they are meant to perform:

1. **Creditors** provide a line of credit to qualified clients and collect the premiums of debt instruments such as loans for financing homes, education, auto, credit cards, small businesses, and personal needs. Converting short-term liabilities to long term assets (banks deal with large number of lenders and borrowers, and reconcile their conflicting needs)

2. **Risk transformation** Converting risky investments into relatively risk-free ones. (lending to multiple borrowers to spread the risk)

3. **Convenience denomination** Matching small deposits with large loans and large deposits with small loans

Advantages and disadvantages of financial intermediaries

There are two essential advantages from using financial intermediaries: 1 .Cost advantage over direct lending/borrowing

2. Market failure protection the conflicting needs of lenders and borrowers are reconciled, preventing market failure

The cost advantages of using financial intermediaries include:

1. Reconciling conflicting preferences of lenders and borrowers

2. Risk aversion intermediaries help spread out and decrease the risks

3. Economies of scale using financial intermediaries reduces the costs of lending and borrowing

4. Economies of scope intermediaries concentrate on the demands of the lenders and borrowers and are able to enhance their products and services (use same inputs to produce different outputs)

Various disadvantages have also been noted in the context of climate finance and development finance institutions. These include a lack of transparency, inadequate attention to social and environmental concerns, and a failure to link directly to proven developmental impacts.

Types of financial intermediaries According to the dominant economic view of monetary operations the following institutions are or can act as financial intermediaries:

- Banks
- Mutual savings banks
- Savings banks
- Building societies
- Credit unions
- Financial advisers or brokers
- Insurance companies
- Collective investment schemes
- Pension funds
- cooperative societies
- Stock exchanges

According to the alternative view of monetary and banking operations, banks are not intermediaries but "fundamentally money creation" institutions, while the other institutions in the category of supposed "intermediaries" are simply investment funds.

Summary Financial intermediaries are meant to bring together those economic agents with surplus funds who want to lend (invest) to those with a shortage of funds who want to borrow. In doing this, they offer the benefits of maturity and risk transformation. Specialist financial intermediaries are ostensibly enjoying a related (cost) advantage in offering financial services, which not only enables them to make profit, but also raises the overall efficiency of the economy. Their existence and services are explained by the "information problems" associated with financial markets.

The alternative view of banking operations treats almost all institutions.

Different types of banks in India.

Types of banks

Reserve Bank of India is the central bank for India. It is otherwise recognized as banker’s bank. One of the main function of the Reserve Bank of India is to direct the credit system of the country. Besides controlling the credit system, it also carries out the monitory policy approved by the government. Primarily Reserve Bank of India undertakes the major financial operations of the country. But for operation by public in general different kinds of banks are working in the market.

1.4.1 Scheduled banks

Banks which are in accordance with the second schedule of the Reserve Bank of India Act, 1934 and listed accordingly are considered as Schedule banks. It includes a wide range of banks working under the act. Scheduled Banks incorporate State Bank of India and its tributaries banks (like State Bank of Hyderabad). Previously there were seven subsidiaries to State Bank of India, but now there are five banks who work as associate banks rather than subsidiary banks of State Bank of India. Scheduled Bank also broadly two types of banks, one is commercial banks and second is cooperative banks. Public Sector, Private Sector, Foreign Banks and Regional Rural Banks are included in Commercial Banks. On the other hand, Urban Cooperative Banks and State Cooperative Banks are constituents of Cooperative banks.

1.4.2 Commercial Banks

The main motive of Commercial Banks is to generate profit from its operation. It is under the provision of Banking Regulation Act, 1949. Principally it engages in accepting deposits and granting loans to the public, corporate and sometimes Government also. Nowadays commercial banks are focusing on customer centric approach for sustainable growth. Commercial banks are further divided into four streams.

1.4.2.1 Public Sector Banks

Banks whose majority of stake are when held by the Government, it is identified as Public Sector Bank. These are also known as nationalized banks. There are 21 nationalized banks in India. The purpose of the nationalized banks is to accommodate the requirement of priority sectors. However, it also aims to mobilize savings from different parts of the country. State Bank of India claims to be the largest and oldest public sector bank. In terms of asset, its market share is 23 % and 25% in terms of the deposit market. State Bank of India is also listed in Fortune Global 500 list of the world’s biggest corporation of 2018.

1.4.2.2 Private Sector Banks

Banks in which the majority of stake is held by private owners are recognized as Private sector banks. Currently, there are 21 private sectors banks operating in India. These banks are customer centric and professionally managed. As mentioned earlier, private banks operate with a motive of profit maximization. Mostly the private sector banks provide innovative products and comply with international standard. In terms of asset ICICI bank is the largest private sector bank. However, it can be further dived into old private sector banks and new private sectors banks. The present research is related to private sector banks in Bhubaneswar.

1.4.2.3 Foreign Banks

Generally, banks where the bulk of the stake is owned and controlled by Foreign Institutional Investors (FII) are recognized as foreign banks. Mostly, their head offices are located overseas, but they operate in India with their branch offices. However, it should be noted that these banks are also under the guidelines of the Reserve Bank of India. Apparently, the norms and guidelines for foreign banks are the same as public and private sector banks. Standard Chartered and HSBC banks are examples of foreign banks functioning in India.

1.4.2.4 Regional Rural Banks

Regional Rural Banks were opened with the motive to promote and provide easy banking facilities to weaker sections of the society. It was established on 2nd October 1975 by the Government of India. Many small farmers and agricultural laborers were trapped in the debt circle of Sahukar (local money lenders).Similar was the case of small entrepreneurs who never had the opportunity to borrow a loan from banks. Regional Rural banks made credit facility easy to these strata of society. Apart from credit facility, it also provides other services like locker facility, credit & debit card facility, and disbursement of wages and pensions by Government. Currently there are 56 Regional Rural Banks helping in the process of economic growth of the country.

1.4.3 Co-operative Bank

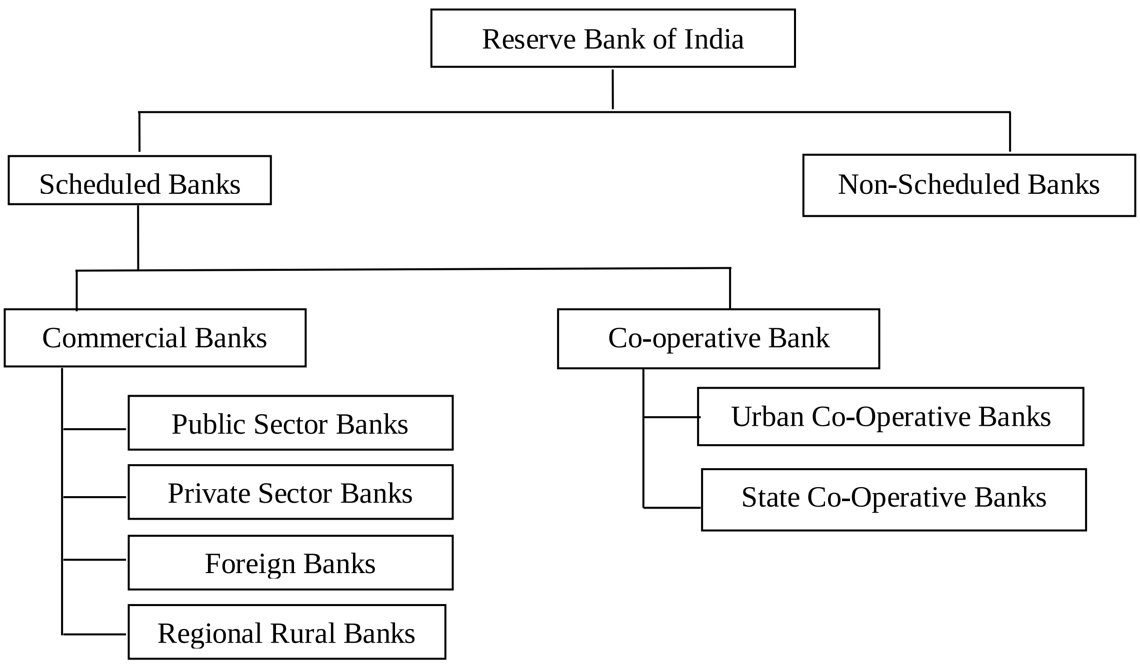
Generally, Co-operative banks function without any profit motive. Co-operative Banks are indexed under the Cooperative Societies Act, 1912. The basic function is no different from other retails banks and accommodates the services like accepting and granting deposits. The banking facilities are carried out by cooperatives like building societies, credit unions, and employment society. Further, it can be of two types Urban Co-operative Banks and State Co-operative Banks.

1.4.3.1 Urban Co-Operative Banks

Mainly Urban Co-Operative Banks cater to entrepreneurs, self employment and small business in urban and semi urban areas. Initially, it was permitted to lend money only for non agricultural functions. But nowadays the scope and horizon of its operation are wider and diversified.

1.4.3.2 State Co-Operative Banks

State Co-Operative Banks are primarily owned by the State Government and incorporated through the state legislature. State Co-Operative Banks mainly focuses on the rural belt of the country. It provides credit facility to different activities like hatcheries, irrigation, and farming.



Commercial Banks

According to the RBI, “Commercial Banks refer to both scheduled and non-scheduled commercial banks which are regulated under Banking Regulation Act, 1949.” Commercial banks operate on a „for-profit‟ basis. They primarily engage in the acceptance of deposit and extend loans to the general public, businesses and the government.

Scheduled commercial Banks

By definition, any bank which is listed in the 2nd schedule of the Reserve Bank of India Act, 1934 is considered a scheduled bank. The list includes the State Bank of India and its subsidiaries (like State Bank of Travancore), all nationalised banks (Bank of Baroda, Bank of India etc), regional rural banks(RRBs), foreign banks (HSBC Holdings Plc, Citibank NA) and some co-operative banks. These also include private sector banks, both classified as old (Karur Vysya Bank) and new (HDFC Bank Ltd).

To qualify as a scheduled bank, the paid up capital and collected funds of the bank must not be less than Rs5 lakh. Scheduled banks are eligible for loans from the Reserve Bank of India at bank rate, and are given membership to clearing houses.

Non-scheduled commercial Banks

Non-scheduled banks by definition are those which are not listed in the 2nd schedule of the RBI act, 1934. Banks with a reserve capital of less than 5 lakh rupees qualify as non-scheduled banks. Unlike scheduled banks, they are not entitled to borrow from the RBI for normal banking purposes, except, in emergency or "abnormal circumstances." Jammu & Kashmir Bank is an example of a non-scheduled commercial bank.

Co-operative Banks

Co-operative banks operate in both urban and non-urban areas. All banks registered under the Cooperative Societies Act, 1912 are considered co-operative banks. These are banks run by an elected managing committee with provisions of members‟ rights and a set of "communally developed and approved bylaws and amendments."

In the urban centers, they mainly finance entrepreneurs, small businesses, industries, self-employment andcater to home buying and educational loans. Likewise, co-operative banks in the rural areas primarily cater to agricultural-based activities, which include farming, livestocks, dairies and hatcheries etc. They also extend loans to small scale units, cottage industries, and self-employment activities like artisanship.

Unlike commercial banks, who are driven by profit, co-operative banks work on a "no profit, no loss" basis. These are regulated by the Reserve Bank of India under the Banking Regulation Act, 1949 and Banking Laws (Application to Co-operative Societies) Act, 1965

Regional Rural Banks

Regional Rural Banks or RRBs, simply put, serve the rural areas and agricultural sectors with basic banking and adequate financial services. They were set up in 1975, based on the recommendations of a committee. Based in Moradabad, Prathama Bank, established on 2

October 1975, is the first RRB to open in India. It was sponsored by Syndicate Bank. The RRBs are owned by the central government (50%), the state government (15%) and the sponsor bank (35%). Several commercial banks have sponsored RRBs.

Prominent examples include the Maharashtra Gramin Bank (sponsored by the Bank of Maharashtra) and the Himachal Gramin Bank (sponsored by Punjab National Bank). RRBs were set up to eliminate other unorganized financial institutions like money lenders and supplement the efforts of co-operative banks.

Payment Banks

The newly licensed payment banks will join India‟s vast banking system, which has several layers of banks, performing different roles and objectives. Payment banks, targeted towards people without access to the formal banking system, will provide savings, deposit, payment and remittance services.

The Reserve Bank of India (RBI) gave in-principle approval to 11 entities to open a new category of banks, „payment banks‟ as part of the government‟s bid to increase financial inclusion and help expand banking services. Payment banks, targetted towards people without access to the formal banking system, will provide savings, deposit, payment and remittance services. Unlike conventional banks, payment banks will not be in the business of lending. Essentially, these banks are targeted towards financially excluded customers like migrant workers, low-income households and small businesses. The list of 11 entites includes nine organisations, including Aditya Birla Nuvo Ltd, Airtel M Commerce Services Ltd, Cholamandalam Distributions Ltd, Reliance Industries Ltd, Tech Mahindra Ltd, Vodafone m-Pesa Ltd, Fino Pay Tech Ltd, Department of Posts and National Securities Depository Ltd (NSDL). Two individuals, Dilip Shanghavi, founder of Sun Pharmaceutical Industries Ltd, and Vijay Shekhar Sharma, founder of One97 Communications Ltd that runs mobile payment company PayTM, were also included inthe list.

Hailed for their disruptive, almost Uber-like effect on the banking industry, the newly licensed payment banks will join India‟s vast banking system, which has several layers of banks, performing different rolesand objectives, once they full criteria laid down by RBI in 18 months.

Indigenous Bankers:

From very ancient days indigenous banking as different from the modern western banking has been organized in the form of family or individual business. They have been called by various names in different parts of the country as Shroffs, Sethus, Sahukars, Mahajans, Chettis and so on. They vary intheir size from petty money lenders substantial shroffs.

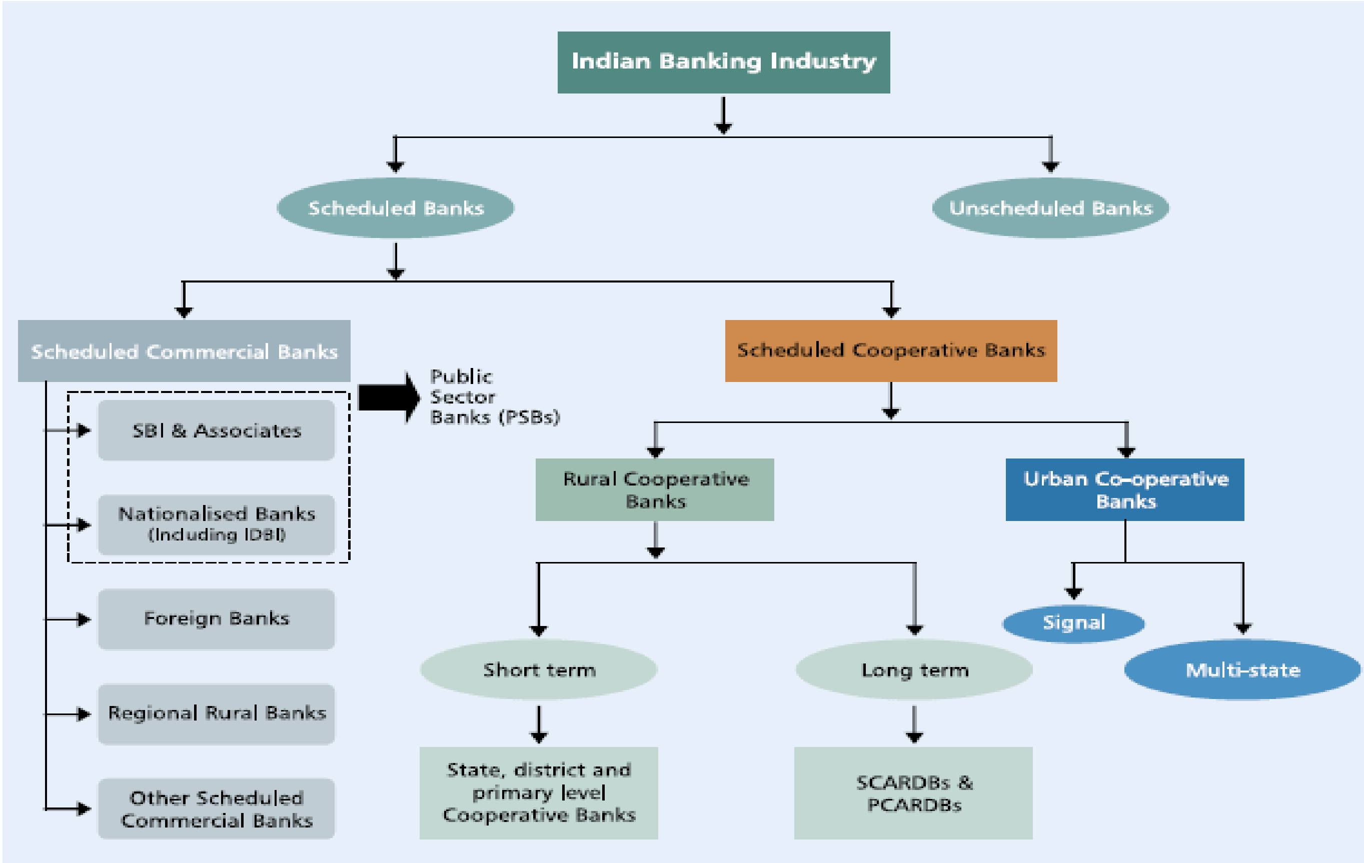
Development Banks:

Development banks are specialised financial institutions. To promote economic development, development banks provide medium term and long term loans the entrepreneurs at relatively low rate o interest rates. Some examples of development banks in India are Industrial Development Bank of India (IDBI), Industrial Financial Corporation of India (IFCI), Industrial Credit and Investment Corporation ofIndia (ICICI) etc.

Exchange Banks:/Exim Bank

These banks are engaged in buying and selling foreign exchange. These banks help the growth of international trade & otherwise known as „Export Import Bank‟. Such banks provide long term financialassistance to the exporters and importers.

Exhibit 2.2: Structure of the Organised Banking Industry



Source: D&B Industry Research Service

Important Role of Banks

Some of the major important role of commercial banks in a developing country are as follows: Besides performing the usual commercial banking functions, banks in developing countries play an effective role in their economic development. The majority of people in such countries are poor, unemployed and engaged in traditional agriculture.

There is acute shortage of capital. People lack initiative and enterprise. Means of transport are undeveloped. Industry is depressed. The commercial banks help in overcoming these obstacles and promoting economic development. The role of a commercial bank in a developing country is discussed asunder.

1. Mobilising Saving for Capital Formation: The commercial banks help in mobilising savings through network of branch banking. People in developing countries have low incomes but the banks induce them to save by introducing variety of deposit schemes to suit the needs of individual depositors. They also mobilise idle savings of the few rich. By mobilising savings, the banks channelise them into productive investments. Thus they help in the capital formation of a developing country.

2. Financing Industry: The commercial banks finance the industrial sector in a number of ways. They provide short-term, medium-term and long-term loans to industry. In India they provide short-term loans. Income of the Latin American countries like Guatemala, they advance medium-term loans for one to three years. But in Korea, the commercial banks also advance long-term loans to industry.

In India, the commercial banks undertake short-term and medium-term financing of small scale industries, and also provide hire- purchase finance. Besides, they underwrite the shares and debentures oflarge scale industries. Thus they not only provide finance for industry but also help in developing the capital market which is undeveloped in such countries.

3. Financing Trade: The commercial banks help in financing both internal and external trade. The banks provide loans to retailers and wholesalers to stock goods in which they deal. They also help in the movement of goods from one place to another by providing all types of facilities such as discounting and accepting bills of exchange, providing overdraft facilities, issuing drafts, etc. Moreover, they finance both exports and imports of developing countries by providing foreign exchange facilities to importers and exporters of goods.

4. Financing Agriculture: The commercial banks help the large agricultural sector in developing countries in a number of ways. They provide loans to traders in agricultural commodities. They open a network of branches in rural areas to provide agricultural credit. They provide finance directly to agriculturists for the marketing of their produce, for the modernisation and mechanisation of their farms, for providing irrigation facilities, for developing land, etc.

They also provide financial assistance for animal husbandry, dairy farming, sheep breeding, poultry farming, pisciculture and horticulture. The small and marginal farmers and landless agricultural workers, artisans and petty shopkeepers in rural areas are provided financial assistance through the regional rural banks in India. These regional rural banks operate under a commercial bank. Thus the commercial banks meet the credit requirements of all types of rural people.

5. Financing Consumer Activities: People in underdeveloped countries being poor and having low incomes do not possess sufficient financial resources to buy durable consumer goods. The commercial banks advance loans to consumers for the purchase of such items as houses, scooters, fans, refrigerators, etc. In this way, they also help in raising the standard of living of the people in developing countries by providing loans for consumptive activities.

6. Financing Employment Generating Activities: The commercial banks finance employment generating activities in developing countries. They provide loans for the education of young person‟s studying in engineering, medical and other vocational institutes of higher learning. They advance loans to young entrepreneurs, medical and engineering graduates, and other technically trained persons in establishing their own business. Such loan facilities are being provided by a number of commercial banks in India. Thus the banks not only help inhuman capital formation but also in increasing entrepreneurialactivities in developing countries.

7. **Help in Monetary Policy:** The commercial banks help the economic development of a country by faithfully following the monetary policy of the central bank. In fact, the central bank depends upon the commercial banks for the success of its policy of monetary management in keeping with requirements ofa developing economy.

Thus the commercial banks contribute much to the growth of a developing economy by granting loans to agriculture, trade and industry, by helping in physical and human capital formation and by following the monetary policy of the country.

Banking Services

Fee based services.

Generally, modern commercial banks offer following services to customers or public:

Debit Cards Debit cards are similar to ATM cards. You can use your debit card with your personal identification number (PIN) to withdraw cash from your bank account at your bank‟s ATMs. You canalso use it to purchase goods and services.

Overdraft An overdraft facility allows you to write cheques or withdraw cash from your current accountup to the overdraft limit approved. It is a short-term standby credit facility which is usually renewable ona yearly basis. It is repayable on demand by the bank at any time.

GIRO GIRO helps you pay regular bills. It allows the billing vendor to debit your designated bank account to pay your bills. To set up a GIRO arrangement, you need to authorise your bank to allow the billing vendor to deduct the amount billed from your designated bank account.

FAST - FAST (Fast And Secure Transfers) provides almost immediate transfer of funds betweenparticipating banks in Singapore. Find out how you may benefit from FAST here.

Credit Cards A credit card is a form of borrowing. It may be a convenient mode of payment as it allows you to buy goods and services without using cash, but it is not intended to be a long-term credit facility.

Stored Value Facilities The EZ-Link card, NETS FlashPay, NETS CashCard and shopping vouchers are examples of stored value facilities. Stored value facilities are prepaid instruments that can be used for the payment of goods or services up to the amount that has been stored in the instrument.

Money-Changers Money-changing involves an exchange of notes denominated in different currencies. Exchange rates may vary depending on market conditions and the money-changer‟s cost of funds. If you need to exchange currencies, you may approach a bank or licensed money-changer that offers these services. It is against the law to operate a money-changing business without a valid licence. You shouldnot engage the services of unlicensed persons.

Remittance Remittance is a system, through which cash fund is transferred from one place to another. Banks provide the facilities of remittance to the customers and earn some service charge.

A remittance service involves the transfer of funds to persons resident inside or outside a country or a territory outside. If you need to remit money to another country, you may approach a bank or licensed remittance agent that offers this service. Banks and remittance agents may impose different commissionand exchange rates. However, do not choose the remittance agent based on cost alone. Be aware of the possible risks posed by different remittance channels.

Others Other services provided by banks include Standing Orders, Electronic Funds Transferred at Pointof Sale, Payment Orders, Phone Banking and Internet Banking.

Cheque Payment Banks provide cheque pads to the account holders. Account holders can draw cheque upon bank to pay money. Banks pay for cheques of customers after formal verification and official procedures. .

Collection And Payment Of Credit Instruments In modern business, different types of credit instruments such as bill of exchange, promissory notes, cheques etc. are used. Banks deal with such instruments. Modern banks collect and pay different types of credit instruments as the representative ofthe customers.

Consultancy Modern commercial banks are large organizations. They can expand their function to consultancy business. In this function, banks hire financial, legal and market experts, who provide advicesto customers in regarding investment, industry, trade, income, tax etc.

Bank Guarantee Customers are provided the facility of bank guarantee by modern commercial banks. When customers have to deposit certain fund in governmental offices or courts for specific purpose, bankcan present itself as the guarantee for the customer, instead of depositing fund by customers.

Fund Based Services

Accepting Deposit Accepting deposit from savers or account holders is the primary function of bank. Banks accept deposit from those who can save money, but cannot utilize in profitable sectors. People prefer to deposit their savings in a bank because by doing so, they earn interest.

Advancing Of Loans Banks are profit oriented business organizations. So they have to advance loan to public and generate interest from them as profit. After keeping certain cash reserves, banks provide short-term, medium-term and long-term loans to needy borrowers.

WORKING CAPITAL FINANCING: A firm's working capital is the money available to meet currentobligations (those due in less than a year) and to acquire earning assets. Chinatrust Commercial Bank offers corporations Working Capital Finance to meet their operating expenses, purchasing inventory, receivables financing, either by direct funding or by issuing letter of credit.

Key Benefits Funded facilities, i.e. the bank provides funding and assistance to actually purchasebusiness assets or to meet business expenses.

SHORT TERM FINANCING The bank can structure low cost credit programmes and cash flow financing to meet your specific short-term cash requirements. The loans are structured to enhance yourprofitability by scheduling the repayment to match the cash flow available to repay the debt.

BILL DISCOUNTING Bill discounting is a short tenure financing instrument for companies willing to discount their purchase / sales bills to get funds for the short run and as for the investors in them. These are customized to suit your requirement for short-term finance, from the date of sale to the date of receiptof payment there on.

We consider two types of bills facility viz. where documents are delivered on payment, i.e. D/P Bills andwhere the documents are delivered against acceptance i.e. D/A Bills.

EXPORT CREDIT We offer short-term working capital finance both at the pre-shipment and post-shipment stages

Pre-shipment finance facility provides liquidity for procuring raw materials, processing, packing,transporting, meant for export.

Post-shipment finance is a credit facility extended from the date of shipment of goods till the realizationof the export proceeds. The different types of post-shipment advances include:

Export bills purchased/discounted

Export bills negotiated (against letter of credit) Advances against bills sent on collection basis Advances against exports on consignment basis

Exporters have the option of availing Post-Shipment finance either in rupees or in foreign currency.

STRUCTURED FINANCE Structured Finance describes any "non-standard" way of raising money. These tailor-made securities go beyond "standard" securities like conventional loans, debentures, debt, and equity.

The reason to structure a more advanced security may be that conventional securities may be unattractive, unavailable or too expensive. These products are structured for both long and short tenor with exit options at intervals for both parties.

TERM LENDING CTCB offers very competitive rates for term financing. We also provide advisory services to companies for syndication of the term loans to a wide spectrum of financial institutions.

Under Term Finance, Commercial Bank, offers the following:

Fund Based Finance for capital expenditure acquisition of fixed assets towards starting or expanding a business to swap with high cost existing debt from other bank / financial institution.

Different Products Offered by Banks (Broad Classification of Products offered by Banks)

The different products in a bank can be broadly classified into:

Retail Banking.

Trade Finance.

Treasury

Operations.

Retail Banking and Trade finance operations are conducted at the branch level while the wholesale banking operations, which cover treasury operations, are at the head office or a designated branch. **Products Offered by Banks**

Retail Banking:

Deposits

Loans, Cash Credit and

Overdraft Negotiating for Loans

and advances Remittances

Book-Keeping (maintaining all accounting

records) Receiving all kinds of bonds valuable for

safe keeping **Trade Finance:**

Issuing and confirming of letter of credit.

Drawing, accepting, discounting, buying, selling, collecting of bills of exchange, promissory notes, drafts, bill of lading and other securities.

Treasury Operations:

Buying and selling of bullion, Foreign exchange.

Acquiring, holding, underwriting and dealing in shares, debentures,

etc. Purchasing and selling of bonds and securities on behalf of

constituents.

The banks can also act as an agent of the Government or local authority. They insure, guarantee, underwrite, participate in managing and carrying out issue of shares, debentures, etc.

Apart from the above-mentioned functions of the bank, the bank provides a whole lot of other services like investment counseling for individuals, short-term funds management and portfolio management for individuals and companies. It undertakes the inward and outward remittances with reference to foreign exchange and collection of varied types for the

Government.

Common Banking Products Available

Some of common available banking products are explained below:

Credit Card: Credit Card is "post paid" or "pay later" card that draws from a credit line-money made available by the card issuer (bank) and gives one a grace period to pay. If the amount is not paid full by the end of the period, one is charged interest. A credit card is nothing but a very small card containing a means of identification, such as a signature and a small photo. It authorizes the holder to change goods or services to his account, on which he is billed. The bank receives the bills from the merchants and pays on behalf of the card holder. These bills are assembled in the bank and the amount is paid to the bank by the card holder totally or by installments. The bank charges the customer a small amount for these services. The card holder need not have to carry money/cash with him when he travels or goes for purchasing.

Credit cards have found wide spread acceptance in the „metros‟ and big cities. Credit cards are joining popularity for online payments. The major players in the Credit Card market are the foreign banks and some big public sector banks like SBI and Bank of Baroda. India at present has about 10 million credit cards in circulation.

Debit Cards: Debit Card is a "prepaid" or "pay now" card with some stored value. Debit Cards quickly debit or subtract money from one‟s savings account, or if one were taking out cash. Every time a person uses the card, the merchant who in turn can get the money transferred to his account from the bank of the buyers, by debiting an exact amount of purchase from the card. To get a debit card along with a PersonalIdentification Number (PIN). When he makes a purchase, he enters this number on the shop‟s PIN pad. When the card is swiped through the electronic terminal, it dials the acquiring bank system – either Master Card or Visa that validates the PIN and finds out from the issuing bank whether to accept or decline the transaction. The customer never overspread because the amount spent is debited immediatelyfrom the customers account. So, for the debit card to work, one must already have the money in the account to cover the transaction. There is no grace period for a debit card purchase. Some debit cards have monthly or per transaction fees. Debit Card holder need not carry a bulky checkbook or large sums of cash when he/she goes at for shopping. This is a fast and easy way of payment one can get debit card facility as debit cards use one‟s own money at the time of sale, so they are often easier than credit cards to obtain. The major limitation of Debit Card is that currently only some shops in urban areas accepts it. Also, a person can‟t operate it in case the telephone lines are down.

Automated Teller Machine: The introduction of ATM‟s has given the customers the facility of round the clock banking. The ATM‟s are used by banks for making the customers dealing easier. ATM card is a device that allows customer who has an ATM card to perform routine banking transaction at any time without interacting with human teller. It provides exchange services. This service helps the customer to withdraw money even when the banks ate closed. This can be done by inserting the card in the ATM and entering the Personal Identification Number and secret Password.

ATM‟s are currently becoming popular in India that enables the customer to withdraw their money 24 hours a day and 365 days. It provides the customers with the ability to withdraw or deposit funds, check account balances, transfer funds and check statement information. The advantages of ATM‟s are many. It increases existing business and generates new business. It allows the customers.

To transfer money to and from accounts. To view account information.

To order cash.

To receive cash.

Advantages of ATM’s: (To the Customers)

ATM‟s provide 24 hrs., 7 days and 365 days a year

service.Service is quick and efficient

Privacy in transaction

Wider flexibility in place and time of withdrawals.

The transaction is completely secure – you need to key in Personal Identification Number (Uniquenumber for every customer).

To Banks

Alternative to extend banking hours.

Crowding at bank counters considerably reduced.

Alternative to new branches and to reduce operating expenses.

Relieves bank employees to focus an more analytical and innovative

work.Increased market penetration.

ATM‟s can be installed anywhere like Airports, Railway Stations, Petrol Pumps, Big Business arcades,markets, etc. Hence, it gives easy access to the customers, for obtaining cash.

The ATM services provided first by the foreign banks like Citibank, Grind lays bank and now by many private and public sector banks in India like ICICI Bank, HDFC Bank, SBI, UTI Bank etc. The ICICI haslaunched ATM Services to its customers in all the Metropolitan Cities in India. By the end of 1990 IndianPrivate Banks and public sector banks have come up with their own ATM Network in the form of

“SWADHAN”. Over the past year upto 44 banks in Mumbai, Vashi and Thane, have became a part of **“SWADHAN”** a system of shared payments networks, introduced by the Indian Bank Association (IBA). **E-Cheques:** The e-cheques consists five primary facts. They are the consumers, the merchant, consumer‟s bank, merchant‟s bank and the e-mint and the clearing process. This cheaqing system uses the network services to issue and process payment that emulates real world cheaquing. The payer issue a digital cheaques to the payee ant the entire transactions are done through internet. Electronic version of cheaques are issued, received and processed. A typical electronic cheque transaction takes place in the following manner:

The customer accesses the merchant server and the merchant server presents its goods to the customer. The consumer selects the goods and purchases them by sending an e-cheque to the merchant.

The merchant validates the e-cheque with its bank for payment authorization. The merchant electronically forwards the e-cheque to its bank.

The merchant‟s bank forwards the e-cheque to the clearing house for cashing.

The clearing house jointly works with the consumer‟s bank clears the cheque and transfers the money tothe merchant‟s banks.

The merchant‟s bank updates the merchant‟s account.

The consumer‟s bank updates the consumer‟s account with the withdrawal information.

The e-chequing is a great boon to big corporate as well as small retailers. Most major banks accept e- cheques. Thus this system offers secure means of collecting payments, transferring value and managingcash flows.

Electronic Funds Transfer (EFT): Many modern banks have computerized their cheque handling process with computer networks and other electronic equipment‟s. These banks are dispensing with the use of paper cheques. The system called electronic fund transfer (EFT) automatically transfers money from one account to another. This system facilitates speedier transfer of funds electronically from any branch to any other branch. In this system the sender and the receiver of funds may be located in different cities and may even bank with different banks. Funds transfer within the same city is also permitted. The scheme has been in operation since February 7, 1996, in India. The other important type of facility in the EFT system is automated clearing houses. These are the computer centers that handle the bills meant for deposits and the bills meant for payment. In big companies pay is not disbursed by issued cheques or issuing cash. The payment office directs the computer to credit an employee‟s account with the person‟s pay.

Telebanking: Telebanking refers to banking on phone services.. a customer can access information about his/her account through a telephone call and by giving the coded Personal Identification Number (PIN) to the bank. Telebanking is extensively user friendly and effective in nature.

To get a particular work done through the bank, the users may leave his instructions in the form ofmessage with bank.

Facility to stop payment on request. One can easily know about the cheque status.

Information on the current interest rates.

Information with regard to foreign exchange rates.Request for a DD or pay order.

DeMat Account related services. And other similar services.

Mobile Banking: A new revolution in the realm of e-banking is the emergence of mobile banking. On-line banking is now moving to the mobile world, giving everybody with a mobile phone access to real- time banking services, regardless of their location. But there is much more to mobile banking from just on-lie banking. It provides a new way to pick up information and interact with the banks to carry out therelevant banking business. The potential of mobile banking is limitless and is expected to be a big success. Booking and paying for travel and even tickets is also expected to be a growth area. According to this system, customer can access account details on mobile using the Short Messaging System (SMS) technology where select data is pushed to the mobile device. The wireless application protocol (WAP) technology, which will allow user to surf the net on their mobiles to access anything and everything. This is a very flexible way of transacting banking business. Already ICICI and HDFC banks have tied up cellular service provides such as Airtel, Orange, Sky Cell, etc. in Delhi and Mumbai to offer these mobile banking services to their customers.

Internet Banking: Internet banking involves use of internet for delivery of banking products and services. With internet banking is now no longer confirmed to the branches where one has to approach the branch in person, to withdraw cash or deposits a cheque or request a statement of accounts. In internet banking, any inquiry or transaction is processed online without any reference to the branch (anywhere banking) at any time. The Internet Banking now is more of a normal rather than an exception due to the fact that it is the cheapest way of providing banking services. As indicated by McKinsey Quarterly research, presently traditional banking costs the banks, more than a dollar per person, ATM banking costs 27 cents and internet banking costs below 4 cents approximately. ICICI bank was the first one to offer Internet Banking in India.

Benefits of Internet Banking: Reduce the transaction costs of offering several banking services and diminishes the need for longer numbers of expensive brick and mortar branches and staff.

Increase convenience for customers, since they can conduct many banking transaction 24 hours a day. Increase customer loyalty.

Improve customer access. Attract new customers.

Easy online application for all accounts, including personal loans and mortgages

Financial Transaction on the Internet:

Electronic Cash: Companies are developing electronic replicas of all existing payment system: cash, cheque, credit cards and coins.

Automatic Payments: Utility companies, loans payments, and other businesses use on automatic payment system with bills paid through direct withdrawal from a bank account.

Direct Deposits: Earnings (or Government payments) automatically deposited into bank accounts, saving time, effort and money.

Stored Value Cards: Prepaid cards for telephone service, transit fares, highway tolls, laundry service, library fees and school lunches.

Point of Sale transactions: Acceptance of ATM/Cheque at retail stores and restaurants for payment of goods and services. This system has made functioning of the stock Market very smooth and efficient. **Cyber Banking:** It refers to banking through online services. Banks with web site "Cyber" branches allowed customers to check balances, pay bills, transfer funds, and apply for loans on the Internet.

Demat: Demat is short for de-materialization of shares. In short, Demat is a process where at the customer‟s request the physical stock is converted into electronic entries in the depository system. In January 1998 SEBI (Securities and Exchange Board of India) initiated DEMAT ACCOUNT System to regulate and to improve stock investing. As on date, to trade on shares it has become compulsory to havea share demat account and all trades take place through demat.

How to Operate DEMAT ACCOUNT.

One needs to open a Demat Account with any of the branches of the bank. After opening an account with any bank, by filling the demat request form one can handover the securities. The rest will be taken care bythe bank and the customer will receive credit of shares as soon as it is confirmed by the Company/Register and Transfer Agent. There is no physical movement of share certification any more.

Any buying or selling of shares is done via electronic transfers.

If the investor wants to sell his shares, he has to place an order with his broker and give a "Delivery Instruction" to his DP (Depository Participant). The DP will debit his account with the number of sharessold by him.

If one wants to buy shares, he has to inform his broker about his Depository Account Number so that theshares bought by him are credited in to his account.

Payment for the electronic shares bought or sold is to be made in the same way as in the case of physicalsecurities.

Banking Payment Systems in India

The central bank of any country is usually the driving force in the development of national payment systems. The Reserve Bank of India as the central bank of India has been playing this developmental role and has taken several initiatives for Safe, Secure, Sound, Efficient, Accessible and Authorised payment systems in the country.

The Board for Regulation and Supervision of Payment and Settlement Systems (BPSS), a sub-committee of the Central Board of the Reserve Bank of India is the highest policy making body on payment systems in the country. The BPSS is empowered for authorising, prescribing policies and setting standards for regulating and supervising all the payment and settlement systems in the country. The Department of Payment and Settlement Systems of the Reserve Bank of India serves as the Secretariat to the Board and executes its directions.

In India, the payment and settlement systems are regulated by the Payment and Settlement Systems Act, 2007 (PSS Act) which was legislated in December 2007. The PSS Act as well as the Payment and Settlement System Regulations, 2008 framed thereunder came into effect from August 12, 2008. In terms of Section 4 of the PSS Act, no person other than the Reserve Bank of India (RBI) can commence or operate a payment system in India unless authorised by RBI. Reserve Bank has since authorised payment system operators of pre-paid payment instruments, card schemes, cross-border in-bound money transfers, Automated Teller Machine (ATM) networks and centralised clearing arrangements. (http://www.rbi.org.in/Scripts/PublicationsView.aspx?id=12043)

Payment Systems

The Reserve Bank has taken many initiatives towards introducing and upgrading safe and efficient modes of payment systems in the country to meet the requirements of the public at large. The dominant features of large geographic spread of the country and the vast network of branches of the Indian banking system require the logistics of collection and delivery of paper instruments. These aspects of the banking structure in the country have always been kept in mind while developing the payment systems.

Paper-based Payments Use of paper-based instruments (like cheques, drafts, and the like) accounts for nearly 60% of the volume of total non-cash transactions in the country. In value terms, the share is presently around 11%. This share has been steadily decreasing over a period of time and electronic mode gained popularity due to the concerted efforts of Reserve Bank of India to popularize the electronic payment products in preference to cash and cheques.

Since paper based payments occupy an important place in the country, Reserve Bank had introduced Magnetic Ink Character Recognition (MICR) technology for speeding up and bringing in efficiency inprocessing of cheques.

Later, a separate High Value Clearing was introduced for clearing cheques of value Rupees one lakh and above. This clearing was available at select large centres in the country (since discontinued). Recent developments in paper-based instruments include launch of Speed Clearing (for local clearance of outstation cheques drawn on core-banking enabled branches of banks), introduction of cheque truncation system (to restrict physical movement of cheques and enable use of images for payment processing), framing CTS-2010 Standards (for enhancing the security features on cheque forms) and the like. While the overall thrust is to reduce the use of paper for transactions, given the fact that it would take some time to completely move to the electronic mode, the intention is to reduce the movement of paper – both for local and outstation clearance of cheques.

Electronic Payments

The initiatives taken by RBI in the mid-eighties and early-nineties focused on technology-based solutions for the improvement of the payment and settlement system infrastructure, coupled with the introduction of new payment products by taking advantage of the technological advancements in banks. The continued increase in the volume of cheques added pressure on the existing set-up, thus necessitating a cost- effective alternative system.

Electronic Clearing Service (ECS) Credit

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

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

Regional ECS (RECS)

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

Electronic Clearing Service (ECS) Debit The ECS (Debit) Scheme was introduced by RBI to provide afaster method of effecting periodic and repetitive collections of utility companies. ECS (Debit) facilitates consumers / subscribers of utility companies to make routine and repetitive payments by „mandating" bank branches to debit their accounts and pass on the money to the companies. This tremendously minimises use of paper instruments apart from improving process efficiency and customer satisfaction.

There is no limit as to the minimum or maximum amount of payment. This is also available across majorcities in the country.

Electronic Funds Transfer (EFT) This retail funds transfer system introduced in the late 1990s enabled an account holder of a bank to electronically transfer funds to another account holder with any other participating bank. Available across 15 major centers in the country, this system is no longer available for use by the general public, for whose benefit a feature-rich and more efficient system is now in place, which is the National Electronic Funds Transfer (NEFT) system.

National Electronic Funds Transfer (NEFT) System In November 2005, a more secure system was introduced for facilitating one-to-one funds transfer requirements of individuals / corporates. Available across a longer time window, the NEFT system provides for batch settlements at hourly intervals, thus enabling near real-time transfer of funds. Certain other unique features viz. accepting cash for originating transactions, initiating transfer requests without any minimum or maximum amount limitations, facilitating one-way transfers to Nepal, receiving confirmation of the date / time of credit to the account of the beneficiaries, etc., are available in the system.

Real Time Gross Settlement (RTGS)System

RTGS is a funds transfer systems where transfer of money takes place from one bank to another on a "realtime" and on "gross" basis. Settlement in "real time" means payment transaction is not subjected to any waiting period. "Gross settlement" means the transaction is settled on one to one basis without bunching or netting with any other transaction. Once processed, payments are final and irrevocable. This was introduced in in 2004 and settles all inter-bank payments and customer transactions above `2 lakh.

Clearing Corporation of India Limited (CCIL)

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

The Clearing Corporation plays the crucial role of a Central Counter Party (CCP) in the government securities, USD –INR forex exchange (both spot and forward segments) and Collaterised Borrowing and Lending Obligation (CBLO) markets. CCIL plays the role of a central counterparty whereby, the contract between buyer and seller gets replaced by two new contracts - between CCIL and each of the two parties.

This process is known as „Novation". Through novation, the counterparty credit risk between the buyer and seller is eliminated with CCIL subsuming all counterparty and credit risks. In order to minimize the these risks, that it exposes itself to, CCIL follows specific risk management practices which are as per international best practices.In addition to the guaranteed settlement, CCIL also provides non guaranteed settlement services for National Financial Switch (Inter bank ATM transactions) and for rupee derivativessuch as Interest Rate Swaps.

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

Other Payment Systems

Pre-paid Payment Systems ; Pre-paid instruments are payment instruments that facilitate purchase of goods and services against the value stored on these instruments. The value stored on such instruments represents the value paid for by the holders by cash, by debit to a bank account, or by credit card. The pre- paid payment instruments can be issued in the form of smart cards, magnetic stripe cards, internet accounts, internet wallets, mobile accounts, mobile wallets, paper vouchers, etc.

Subsequent to the notification of the PSS Act, policy guidelines for issuance and operation of prepaid instruments in India were issued in the public interest to regulate the issue of prepaid payment instrumentsin the country.

The use of pre-paid payment instruments for cross border transactions has not been permitted, except for the payment instruments approved under Foreign Exchange Management Act,1999 (FEMA).

Mobile Banking System - Mobile phones as a medium for providing banking services have been attaining increased importance. Reserve Bank brought out a set of operating guidelines on mobile bankingfor banks in October 2008, according to which only banks which are licensed and supervised in India and have a physical presence in India are permitted to offier mobile banking after obtaining necessary permission from Reserve Bank. The guidelines focus on systems for security and inter-bank transfer arrangements through Reserve Bank's authorized systems. On the technology front the objective is to enable the development of inter-operable standards so as to facilitate funds transfer from one account to any other account in the same or any other bank on a real time basis irrespective of the mobile network a customer has subscribed to.

ATMs / Point of Sale (POS) Terminals / Online Transactions

Presently, there are over 61,000 ATMs in India. Savings Bank customers can withdraw cash from any bank terminal up to 5 times in a month without being charged for the same. To address the customer service issues arising out of failed ATM transactions where the customer's account gets debited without actual disbursal of cash, the Reserve Bank has mandated re-crediting of such failed transactions within 12 working day and mandated compensation for delays beyond the stipulated period. Furthermore, a standardised template has been prescribed for displaying at all ATM locations to facilitate lodging of complaints by customers.

There are over five lakh POS terminals in the country, which enable customers to make payments for purchases of goods and services by means of credit/debit cards. To facilitate customer convenience the Bank has also permitted cash withdrawal using debit cards issued by the banks at PoS terminals.

The PoS for accepting card payments also include online payment gateways. This facility is used for enabling online payments for goods and services. The online payment are enabled through own payment gateways or third party service providers clled intermediaries. In payment transactions involving intermediaries, these intermediaries act as the initial recipient of payments and distribute the payment to merchants. In such transactions, the customers are exposed to the uncertainty of payment as most merchants treat the payments as final on receipt from the intermediaries. In this regard safeguard the interests of customers and to ensure that the payments made by them using Electronic/Online Payment modes are duly accounted for by intermediaries receiving such payments, directions were issued in November 2009. Directions require that the funds received from customers for such transactions need to be maintained in an internal account of a bank and the intermediary should not have access to the same. Further, to reduce the risks arising out of the use of credit/debit cards over internet/IVR (technically referred to as card not present (CNP) transactions), Reserve Bank mandated that all CNP transactions should be additionally authenticated based on information not available on the card and an online alertshould be sent to the cardholders for such transactions.

National Payments Corporation of India

The Reserve Bank encouraged the setting up of National Payments Corporation of India (NPCI) to act asan umbrella organization for operating various. Retail Payment Systems (RPS) in India. NPCI became functional in early 2009. NPCI has taken over National Financial Switch (NFS) from Institute for Development and Research in Banking Technology (IDRBT). NPCI is expected to bring greater efficiency by way of uniformity and standardization in retail payments and expanding and extending the reach of both existing and innovative payment products for greater customer convenience.

Oversight of Payment and Settlement Systems

Oversight of the payment and settlement systems is a central bank function whereby the objectives of safety and efficiency are promoted by monitoring existing and planned systems, assessing them against these objectives and, where necessary, inducing change. By overseeing payment and settlement systems, central banks help to maintain systemic stability and reduce systemic risk, and to maintain public confidence in payment and settlement systems.

The Payment and Settlement Systems Act, 2007 and the Payment and Settlement Systems Regulations, 2008 framed thereunder, provide the necessary statutory backing to the Reserve Bank of India for undertaking the Oversight function over the payment and settlement systems in the country.

.

MODULE II

THE BANKING REGULATION ACT., 1949.

(AN ACT TO CONSOLIDATE AND AMEND THE LAW RELATING TO BANKING)

1. Short title, extent and commencement.—

(1) This Act may be called the Banking Regulation Act, 1949.

(2) It extends to the whole of India .

(3) It shall come into force on such date as the Central Government may, by notification in the Official Gazette, appoint in this behalf.

2. Application of other laws .—The provisions of this Act shall be in addition to, and not, save as hereinafter expressly provided, in derogation of the [Companies Act, 1956 (1 of 1956)] and any other law for the time being in force.

Provisions of other enactment and their application are not, in any way excluded.—In the instant case, the point for consideration is whether the rate of interest claimed by the respondent Bank can be a subject-matter of judicial scrutiny under the provisions of the Usurious Loans Act. This question has to be answered affirmatively, because there is no prohibition in the Banking Regulation Act, 1949, precluding the Court from scrutinizing the rate of interest under the provisions of the Usurious Loans Act, since Sec. 2 of the Banking Regulation Act makes it clear that the provisions of any other enactment and their application are not, in any way, excluded by the provisions of the Banking Regulation Act, 1949.

Act to apply to Co-operative Societies in certain cases.—nothing in this Act shall apply to—

(a) a primary agricultural credit society;

(b) a co-operative land mortgage bank; and (c) any other co-operative society, except in the manner and to the extent specified in Part V.

Employment for the legal heirs of an employee who died in harness.

The petitioner is entitled to claim employment on compassionate grounds irrespective of the question of law raised by the appellant-Bank. Incidentally, it may be mentioned that the appellant-Bank has a scheme of its own for making appointment on compassionate grounds of legal heirs of its employees. but the said scheme is not applicable as such to the writ petitioner as in Clause 10 of the Scheme the employees of the transferor Bank will be governed by the same terms and conditions of service as are applicable to them on 15th August, 1989 for a period of three years. The writ petitioner has studied up to 5th standard and she has two minor daughters and one minor son. She has no other source of income. Hence she is entitled to be appointed on compassionate grounds. Even if her educational qualification is below the minimum required by the appellant-Bank the latter shall grant a relaxation of the conditions in her case having regard to the special facts and circumstances of the case.

Power to suspend operation of Act. —-

(1) The Central Government, if on a representation made by the Reserve Bank in this behalf, is satisfied that it is expedient so to do, may by notification in the Official Gazette suspend for such period, not exceeding sixty days, as may be specified in the notification, the operation of all or any of the provisions of this Act, either generally or in relation to any specified banking company.

(2) In a case of special emergency, the Governor of the Reserve Bank, or in his absence a Deputy Governor of the Reserve Bank nominated by him in this behalf may, by order in writing, exercise the powers of the Central Government under sub-section (1), so however that the period of suspension shall not exceed thirty days, and wherethe Governor or the Deputy Governor, as the case may be, does so, he shall report the matter to the Central Government forthwith, and the order shall, as soon as may be, be published in the Gazette of India.

(3) The Central Government may, by notification in the Official Gazette, extend from time to time the period of any suspension ordered under sub-section (1) or sub-section (2) for such period, not exceeding sixty days at any onetime, as it thinks fit, so however that the total period does not exceed one year.

(4) A copy of any notification issued under sub-section (2) shall be laid on the table of [Parliament] as soon as may beafter it is issued.

Requirement as to minimum paid-up capital and reserves.— [S. 11]

Notwithstanding anything contained in 6[Sec. 149 of the Companies Act, 1956 (1 of 1956)J, no banking company in existence on the commencement of this Act, shall after the expiry of three years from such commencement or of such further period not exceeding one year as the Reserve Bank, having regard to the interests of the depositors of the company may think fit in any particular case to allow, to carry on business in India, and no other banking company shall after the commencement of this Act, commence or carry on business in India, unless it complies with such of the requirements of this section as are applicable to it.

In the case of a banking company incorporated outside India—

(a) the aggregate value of its paid-up capital and reserves shall not be less than fifteen lakhs of rupees and if it has a place or places of business in city of Bombay or Calcutta or both, twenty lakhs of rupees; and

(b) the banking company shall deposit and keep deposited with the Reserve Bank either in cash or in the form of unencumbered approved securities, or partly in cash and partly in the form of such securities— (i) an amount which shall not be less than the minimum requirement

(ii) as soon as may be after expiration of each 5 year, an amount calculated at twenty per cent. of its profit for that year in respect of all business transacted through its branches in India, as disclosed in the profit and loss account prepared with reference to that year under Sec. 29:] Provided that any such banking company may at any time replace— (i) any securities so deposited by cash or by any other unencumbered approved securities or partly by cash and partly by other such securities, so however, that the total amount deposited is not affected; (ii) any cash so deposited by unencumbered approved securities of an equal value.)

Notwithstanding anything contained in sub-section (2), the Central Government may, on the recommendation of the Reserve Bank, and having regard to the adequacy of the amounts already deposited and kept deposited by a banking company under sub-section (2), in relation to its deposit liabilities in India, declare by order in writing that the provisions of sub-clause (ii) of Cl.(b) of sub-section (2) shall not apply to such banking company for such period as may be specified in the order.] (3) In the case of any banking company to which the provisions of sub-section (2) do not apply, the aggregate value of its paid-up capital and reserves shall not be less than— (i) if it has places of business in more than one State, five lakhs of rupees, and if any such place or places of business is or are situated in the city of Bombay or Calcutta or both, ten lakhs of rupees;

(ii) if it has all its places of business in one State none of which is situated in the city of Bombay or Calcutta, one lakh of rupees in respect of its principal place of business, plus ten thousand rupees in respect of each of its other places of business situated in the same district in which it has its principal place of business, plus twenty-five thousand rupees in respect of each place of business situated elsewhere in the State otherwise than in the same district: Provided that no banking company to which this clause applies shall be required to have paid-up capital and reserves exceeding an aggregate value of five lakhs of rupees: Provided further that no banking company to which this clause applies and which has only one place of business, shall be required to have paid-up capital and reserves exceeding an aggregate value of fifty thousand rupees:

Provided further that in the case of every banking company to which this clause applies and which commences banking business for the first time after the commencement of the Banking Companies (Amendment) Act, 1962 (36 of 1962), the value of its paid-up capital shall not be less than five lakhs of rupees;] (iii) if it has all its places of business in one State, one or more of which is or are situated in the city of Bombay or Calcutta, five lakhs of rupees, plus twenty-five thousand rupees in respect of each place of business situated outside the city of Bombay or Calcutta, as the case may be: Provided that no banking company to which this clause applies shall be required to have paid-up capital and reserves exceeding in aggregate value of ten lakhs of rupees.

If any dispute arises in computing the aggregate value of the paid-up capital and reserves of any banking company, a determination thereof by the Reserve Bank shall be final for the purposes of this section.

Regulation of paid-up capital, subscribed capital and authorized

No banking company shall carry on business in India, unless it satisfies the following conditions, namely:

(i) that the subscribed capital if the company is not less than one-half of the authorized capital, and paid-up capital is not less than one-half of the subscribed capital and that, if the capital increased, it complies with the conditions prescribed in this clause within such period not exceeding two years as the Reserve Bank may allow; (ii) that the capital of the company consists of ordinary shares only or of ordinary shares or equity shares and such preferential shares as may have been issued prior to the 1st day of July, 1944: Provided that nothing contained in this sub-sectionshall apply to any banking company incorporated before the 15th day of January, 1937.

(2) No person holding shares in a banking company shall, in respect of any shares held by him, exercise voting right 2[on Poll] 3[in excess of 4[ten per cent.]] of the total voting rights of all the shareholders of the banking company. (3) Notwithstanding anything contained in any law for the time being in force or in contract or instrument no suit or other proceeding shall be maintained against any person registered as the holder of a share in a banking companyon the ground that title to the said share vests in a person other than the registered holder.

Every Chairman, Managing Director or Chief Executive Officer by whatever name called of a banking company shall furnish to the Reserve Bank through that banking company returns containing full particulars of the extent and value of his holding of shares, whether directly or indirectly, in the banking company and of any change in the extent of such holding or any variation in the rights attaching thereto and such other information relating to those shares as the Reserve Bank may, by order, require and in such form and at such time as may be specified in the order.

Licensing of banking companies.—

Save as hereinafter provided no company shall carry on banking business in India unless it holds a licence issued in that behalf by the Reserve Bank and any such licence may be issued subject to such conditions as the Reserve Bank may think fit to impose.]

Every banking company in existence on the commencement of this Act, before the expiry of six months from such commencement, and every other company before commencing banking business 7[in India], shall apply in writing to the Reserve Bank for a licence under this section:

Provided that in the case of banking company in existence on the commencement of this Act, nothing in sub-section

(1) shall be deemed to prohibit the company from carrying on banking business until it is granted licence in pursuance of 8[this section] or is by notice in writing informed by the Reserve Bank that a licence cannot be granted to it:

Provided further that the Reserve Bank shall not give a notice as aforesaid to a banking company in existence on the commencement of this Act before the expiry of the three years referred to in sub-section (1) of Sec. 11 or of such further period as the Reserve Bank may under that sub-section think fit to allow.

Before granting g any licence under this section the Reserve Bank may require to be satisfied by an inspection of the books of the company or otherwise that the following conditions are fulfilled, namely:

[(a) that the company is or will be in position to pay its present or future depositors in full as their claims accrue;

(b) that the affairs of the company are not being, or are not likely to be conducted in a manner detrimental to the interests of its present or future depositors;]

[(c) that the general character of the proposed management of the company will not be prejudicial to the public interest of its present or future depositors;

(d) that the company has adequate capital structure and earning prospects;

(e) that the public interest will be served by the grant of a licence to the company to carry on banking business in India;

(f) that having regard to the banking facilities available in the proposed principal area of operations of the company, the potential scope for expansion of banks already in existence in the area and other relevant factors the grant of the licence would not be prejudicial to the operation and consolidation of the banking system consistent with monetary stability and economic growth;

(g) any other condition, the fulfilment of which would, in the opinion of the Reserve Bank, be necessary to ensure that the carrying on of banking business in India by the company will not be prejudicial to the public interest or the interests of the depositors.]

Before granting any licence under this section to a company incorporated outside India, the Reserve Bank may require to be satisfied by an inspection of the books of the company or otherwise that the conditions specified in sub-section (3) are fulfilled and that the carrying on of banking business by such company in

India will be in the public interest and that the Government or law of the country in which it is incorporated does not discriminate in any way against companies registered in India and that the company complies with all the provisions of this Act applicable to banking companies incorporated outside India.]

The Reserve Bank may cancel a licence granted to a banking company under this section

(i) if the company ceases to carry on banking business in India; or

(ii) if the company at any time fails to comply with any of the condition imposed upon it under sub-section (1) or

(iii) if at any time, any of the conditions referred to in sub-section (3) 1(and sub-section (3-A) is not fulfilled

Provided that before cancelling a licence under Cl. (ii) or Cl. (iii) of sub-section on the ground that the banking company has failed to comply with or has failed to fulfil any of the conditions referred to therein, the Reserve Bank unless it is of opinion that the delay will be prejudicial to the interests of the company`: depositors or the public, shall grant to the company on such terms as it may specify, an opportunity of taking the necessary steps for complying with or fulfilling such condition.

Any banking company aggrieved by the decision of the Reserve Bank cancelling a licence under this section may, within thirty days from the date on which such decision is communicated to it, appeal to the Central Government.

The decision of the Central Government where an appeal has been preferred to it under sub-section (5) or of the Reserve Bank where no such appeal has been preferred shall be final.

Accounts and balance-sheet.—

At the expiration of each calendar year or at the expiration of a period of twelve months ending with such date as the Central Government may, by notification in the Official Gazette, specify in this behalf, every banking company incorporated in India, in respect to all business transacted by it, and every banking company incorporated outside India, in respect of all business transacted through its branches in India, shall prepare with reference to that year or period as the case may be, a balance-sheet and profit and loss account, as on the last working day of that year or the

period, as the case may be, in the forms set out in the Third Schedule or as near thereto as circumstances admit: Provided that with a view to facilitating the transition from one period of accounting to another period of accounting colder this sub-section, the Central Government may, by order published in the Official Gazette, make. such provisions as it considers necessary or expedient for the preparation of, or for other matters relating to, the balance-sheet or profit and loss account in respect of the concerned year or period, as the case may be.] (2) The balance-sheet and profit and loss account shall be signed—

(a) in the case of a banking company incorporated in India, by the manager or the principal officer of the company and where there are more than three directors of the company, by at least three of those directors, or where there are not more than three directors by all the directors; and

(b) in the case of banking company incorporated outside India by the manager or agent of the principal office of the company in India.

Notwithstanding that the balance-sheet of a banking company is under sub-section (1) required to be prepared in a form other than the form 11[set out in Part I of Sch. VI to the Companies Act, 1956 (1 of 1956)] the requirements of that Act relating to the balance-sheet and profit and loss account of a company shall, in so far as they are not inconsistent with this Act, apply to the balance-sheet or profit and loss account, as the case may be, of banking company.

Notwithstanding anything to the contrary contained in sub-section (3) of Sec. 210 of the Companies Act, 1956 (1 of 1956) the period to which the profit and loss account relates shall, in the case of a banking company, be the period ending with the last working day of the year immediately preceding the year in which the annual general meeting is held.

Audit.— The balance-sheet and profit and loss account prepared in accordance with Sec. 29 shall be audited by a person duly qualified under any law for the time being in force to be an auditor of companies.

Notwithstanding anything contained in any law for the time being in force or in any contract to the contrary, every banking company shall, before appointing, re-appointing or removing any auditor or auditors, obtain the previous approval of the Reserve Bank.

Without prejudice to anything contained in the Companies Act, 1956 (1 of 1956), or any other law for the time being in force, where the Reserve Bank is of opinion that it is necessary in the public interest or in the interests of the banking company or its depositors so to do it may at any time by order direct that a special audit of the banking company's accounts, for any such transaction or class of transactions or for such period or periods as may be specified in the order, shall be conducted and may by the same or a different order either appoint a person duly qualified under any law for the time being in force to be an auditor of companies or direct the auditor of the banking company himself to conduct such special audit], and the auditor shall comply with such directions and make a report of such audit to the Reserve Bank and forward a copy thereof to the company.

The expenses of, or incidental to, the special audit specified in the order made by the Reserve Bank shall be borne by the banking company. The auditor shall have the powers of, exercise the functions vested in, and discharge the duties and be subject to the liabilities and penalties imposed on, auditors of companies by Sec. 227 of the Companies Act, 1956 (1 of 1956)] 2[and auditors, if any, appointed by the law establishing, constituting or forming the banking company concerned.]

In addition to the matters which under the aforesaid Act the auditor is required to state in his report, he shall, in case of a banking company incorporated in India, state in his report—

(a) whether or not the information and explanation required by him have been found to be satisfactory;

(b) whether or not the transactions of the company which came to his notice have been with the powers of the company;

(c) whether or not the returns received from branch offices of the company have been found adequate for the purposes of his audit;

(d) Whether the profit and loss account shows a true balance 4[or profit or loss] for the period covered by such account;

(e) any other matter which he considers should be brought to the notice of the shareholders of the company.

CONTROL OVER MANAGEMENT (Section36-AA) Power of Reserve Bank to remove managerial and other persons from office.—(1) Where the Reserve Bank is satisfied that in the public interest or for preventing the affairs of a banking company being conducted in a manner detrimental to the interests of the depositors or for securing the proper management of any banking company it is necessary so to do, the Reserve Bank may, for reasons to be recorded in writing, by order remove from office, with effect from such date as may be specified in the order 3[any chairman, director,] chief executive officer (by whatever name called) or other officer or employee of the banking company.

(2) No order under sub-section (1) shall be made 4[unless the chairman, director] or chief executive officer or other

officer or employee concerned has been given a reasonable opportunity of making a representation to the Reserve Bank against the proposed order:

Provided that if in the opinion of the Reserve Bank, any delay would be detrimental to the interests of the banking company or its depositors the Reserve Bank may, at the time of giving the opportunity aforesaid or at any time thereafter, by order direct, that pending the consideration of the representation aforesaid, if any 5[the chairman or, as the case maybe director or chief executive officer] or other officer or employee, shall not, with effect from the date of such order.—

(a) act as such chairman or director or chief executive officer or other officer or employee of the banking company;

(b) in any way, whether directly or indirectly be concerned with, or take part in the management of, the banking company.

(3) (a) Any person against whom an order of removal has been made under sub-section (1) may, within thirty days from the date of communication to him of the order, prefer an appeal to the Central Government.

(b) The decision of the Central Government on such .appeal and subject thereto, the order made by the ReserveBank under sub-section (1), shall be final and shall not be called into question in any Court.

(4) Where any order is made in respect of a chairman, director or chief executive officer or other officer or employeeof a banking company under sub-section (1), he shall cease to be 8[a chairman or as the case may be, a director, chief executive officer Or employee of the banking company and shall not, in any way, whether directly or indirectly, be concerned with, or take part in the management of, any banking company for such period not exceeding five years as may be specified in the order.

(5) If any person in respect of whom an order is made by the Reserve Bank under sub-section (1) or under the proviso to sub-section (2) contravenes the provisions of this section, he shall be punishable with fine which may extend to two hundred and fifty rupees for each day during which such contravention continues.

(6) Where an order under sub-section (1) has been made, the Reserve Bank may, by order in writing, appoint a suitable person in place of 3[the chairman or director] or chief executive officer or other officer or employee who has been removed from his office under that sub-section, with effect from such date as may be specified in the order.

(7) Any person appointed as 1[chairman, director or chief executive officer] or other officer or employee under this section, shall—

(a) hold office during the pleasure of the Reserve Bank and subject thereto for a period not exceeding three years or such further periods not exceeding three years at a time as the Reserve Bank may specify;

(b) not incur any obligation or liability by reason only of his being a 5[chairman, director or chief executive officer] or other officer or employee or for anything done or omitted to be done in good faith in the execution of the duties of his office or in relation thereto.

(8) Notwithstanding anything contained in any law or in any contract, memorandum or articles of association, on the removal of a person from office under this section that person shall not be entitled to claim any compensation the loss or termination of office.

PROHIBITION OF CERTAIN ACTIVITIES IN RELATION TO BANKING COMPANIES

Punishment for certain activities in relation to banking companies.(sec-36-AD).

(1) No person shall— (a) obstruct any person from lawfully entering or leaving any office or place of business of a banking company or from carrying on any business thereto, or

(b) hold, within the office or place of business of any banking company, any demonstration which is violent or which prevents, or is calculated to prevent, the transaction of normal business by the banking company, or

(c) act in any manner calculated to undermine the confidence of the depositors in the banking company. (2) Whoever contravenes any provision of sub-section (1) without any reasonable excuse shall be punishable with imprisonment for a term which may extend to six months, or with fine which may extend to one thousand rupees, or with both.

For the purposes of this section "banking company" includes the Reserve Bank, the Development Bank, the Exim Bank the Reconstruction Bank], the National Housing Bank, the National Bank, ,the Small Industries Banks, the State Bank of India, a corresponding new bank, a regional rural bank and a subsidiary bank.

ACQUISITION OF THE UNDERTAKINGS OF BANKING COMPANIES IN CERTAIN CASES (sec-36-AE.)

Power of Central Government to acquire undertakings of banking companies in certain cases.—(1) If, upon receipt, of a report from the Reserve Bank, the Central Government is satisfied that a banking company— (a) has, on more than one occasion, failed to comply with the directions given to it in writing under Sec. 21 or Sec. 35-A, in so far as such directions relate to banking policy, or (b) is being managed in a manner detrimental to the interests of its depositors,— and that —

(i) in the interests of the depositors of such banking company, or

(ii) in the interest of banking policy, or

(iii) for the better provision of credit, generally or of credit to any particular section of the community or in anyparticular area ;

it is necessary to acquire the undertaking of such banking company, the Central Government may, after such consultation with the Reserve Bank as it thinks fit, by notified order, acquire the undertaking of such company (hereinafter referred to as the acquired bank) with effect from such date as may be specified in this behalf by the Central Government (hereinafter referred to as the appointed day:

Provided that no undertaking of any banking company shall be so acquired unless such banking company has been given a reasonable opportunity of showing cause against the proposed action.

Compensation to be given to shareholders of the acquired bank.—

(1) Every person who, immediately before the appointed day, is registered as a holder of shares in acquired bank or, where the acquired bank is a banking company incorporated outside India, the acquired bank, shall be given by the Central Government, or the transferee bank, as the case may be, such compensation in respect of the transfer of the undertaking of the acquired bank as it determined in accordance with the principles contained in the Fifth Schedule.

(2) Nothing contained in sub-section (1) shall affect the rights & interest between the holder of any share in the acquired bank and any other person who may have any interest in such shares and such other person shall be entitled to enforce his interest against the compensation awarded to the holder of such share, but not against the Central Government, or the transferee bank.

(3) The amount of compensation to be given in accordance with the principles contained in the Fifth Schedule shall be determined in the first instance by the Central Government, or the transferee bank, as the case may be, in consultation with the Reserve Bank, and shall be offered by it to all those to whom compensation is payable under sub-section (1) in full satisfaction thereof.

(4) If the amount of compensation offered in terms of sub-section (3) is not acceptable to any person to whom the compensation is payable, such person may, before such date as may be notified by the Central Government in the Official Gazette, request the Central Government in writing to have the matter referred to the Tribunal constituted under Sec. 36-AH.

(5) If, before the date notified under sub-section (4), the Central Government receives requests, in terms of that sub- section, from not less than one-fourth in number of the shareholders holding not less than one-fourth in value of the paid-up share capital of the acquired bank, or where the acquired bank is a banking company incorporated outside India, from the acquired bank, the Central Government shall have the matter referred to the Tribunal for decision.

(6) If, before the date notified under sub-section (4), the Central Government does not receive requests as provided in that sub-section, the amount of compensation offered under sub-section (3), and where a reference has been made to the Tribunal, the amount determined by it, shall be the compensation payable

under sub-section (1) and shall be final and binding on all parties concerned.

SUSPENSION OF BUSINESS AND WINDING UP OF BANKING COMPANIES [36-B.]

High Court defined.—In this part "High Court" in relation to a banking company, means the High Court exercising jurisdiction in the place where the registered office of the banking company is situated or, in case of a banking company incorporated outside India, where its principal place of business in India is situated.

Suspension of business.—(1) The High Court may, on the application of a banking company which is temporarily unable to meet its obligations, make an order (a copy of which it shall cause to be forwarded to the Reserve Bank) staying the commencement or continuance of all actions and proceedings against the company for a fixed period of time on such terms and conditions as it shall think fit and proper, and may from time to time extend the period, so however that the total period of moratorium shall not exceed six months.

(2) No such application shall be maintainable unless it is accompanied by a report of the Reserve Bank indicating that in the opinion of the Reserve Bank the banking company will be able to pay its debts if the application is granted Provided that the High Court may for sufficient reasons, grant relief under this section even if the application is not accompanied by such report, and where such relief is granted, the High Court shall call for a report from the Reserve Bank on the affairs of banking company, on receipt of which it may either rescind any order already passed or pass such further orders thereon as may be just and proper in the circumstances.

When an application is made under sub-section (1), the High Court may appoint a special officer who shall forthwith take into his custody or under his control all the assets, books, documents, effects and actionable claims to which the banking company is or appears to be entitled and shall also exercise such other powers as the High Court may deem fit to confer on him, having regard to the interests of the depositors of the banking company.

Where the Reserve Bank is satisfied that the affairs of a banking company in respect of which an order under sub- section (1) has been made, are being conducted in a manner detrimental to the interests of the depositors it may make an application to the High Court for the winding up of the company, and where any such application is made,

the High Court shall not make any order extending the period for which the commencement or continuance of allactions and proceedings against the company were stayed under that sub-section.

Know your customer

Know your customer (KYC) is the process of a business verifying the identity of its clients. The term is also used to refer to the bank regulation which governs these activities. Know your customer processes are also employed by companies of all sizes for the purpose of ensuring their proposed agents, consultants, or distributors are anti-bribery compliant. Banks, insurers and export creditors are increasingly demanding that customers provide detailed anti- corruption due diligence information, to verify their probity and integrity. Know your customer policies are becoming much more important globally to prevent identity theft, financial fraud, money laundering and terrorist financing **Standards:** The objective of KYC guidelines is to prevent banks from being used, intentionally or unintentionally, by criminal elements for money laundering activities. Related procedures also enable banks to better understand their customers and their financial dealings. This helps them manage their risks prudently. Banks usually frame their KYC policies incorporating the following four key elements:

- Customer Policy;
- Customer Identification Procedures;
- Monitoring of Transactions; and
- Risk management.

For the purposes of a KYC policy, a Customer/user may be defined as:

- a person or entity that maintains an account and/or has a business relationship with the bank;
- one on whose behalf the account is maintained (the beneficial owner).
- beneficiaries of transactions conducted by professional intermediaries such as stockbrokers, Chartered Accountants, or solicitors, as permitted under the law; or
- any person or entity connected with a financial transaction which can pose significant reputational or other risks to the bank, for example, a wire transfer or issue of a high-value demand draft as a single transaction.

Typical controls

- KYC controls typically include the following:
- Collection and analysis of basic identity information (referred to in US regulations and practice as a "Customer Identification Program" or CIP)
- Name matching against lists of known parties (such as "politically exposed person")
- Determination of the customer's risk in terms of propensity to commit money laundering, terrorist finance, or identity theft
- Creation of an expectation of a customer's transactional behavior

- Monitoring of a customer's transactions against expected behaviour and recorded profile as well asthat of the customer's peers

Laws by country

India: The Reserve Bank of India introduced KYC guidelines [1] for all banks in 2002. In 2004, RBI directed all banks to ensure that they are fully compliant with the KYC provisions before December 31, 2005.

New Zealand: Updated KYC laws were enacted in late 2009 and entered into force in 2010. KYC is mandatory for all registered banks and financial institutions (the latter has an extremely wide meaning).[3]

South Africa: The Financial Intelligence Centre Act 38 of 2001 (FICA)

United Kingdom: The Money Laundering Regulations 2007 are the underlying rules that govern KYC in the UK. Many UK businesses use the guidance provided by the European Joint Money Laundering Steering Group as a guide to compliance.

United States: Pursuant to the USA Patriot Act of 2001, the Secretary of the Treasury was required to finalize regulations before October 26, 2002 making KYC mandatory for all US banks. The related processes are required to confirm to a customer identification program (CIP)

Enhanced due diligence

Enhanced due diligence (EDD) is a more detailed standard required for larger customers and transactions. The USA PATRIOT Act dictates that institutions "shall establish appropriate, specific, and, where necessary, enhanced, due diligence policies, procedures, and controls that are reasonably designed to detect and report instances of money laundering through those accounts." US regulations require that EDD measures are applied to account types such as Private banking, Correspondent account, and Offshore banking institutions. Because regulatory definitions are neither globally consistent nor prescriptive, financial institutions are at risk of being held to differing standards dependent upon their jurisdiction and regulatory environment. An article published by Peter Warrack in the July

2006 edition of ACAMS Today (Association of Certified Anti-Money Laundering Specialists) suggests the following: "A
rigorous and robust process of investigation over and above (KYC) procedures, that seeks with reasonable assurance to verify and validate the customer's identity; understand and test the customer's profile, business and account activity; identify relevant adverse information and risk; assess the potential for money laundering and / or terrorist financing to support actionable decisions to mitigate against financial, regulatory and reputational risk and ensure regulatory compliance."

Characteristics of EDD (**Rigorous and robust**): Generally this means consistent, thorough and accurate. The process must be documented and available for inspection by regulators. The process must be SMART (Specific, Measurable, Achievable, Relevant and Time bound), scalable and proportionate to the risk and resources.

Over and above KYC procedure: EDD files rely upon initial client screening. EDD processes should use a tiered approach dependent upon the risk. Crucial to the integrity of any EDD process is the reliability of information and information sources, the type and quality of information sources used, properly trained analysts who know where to look for information, how to look and how to corroborate, interpret and decide the results. Commercial intelligence companies aggregate this information and compile it daily into a comprehensive database. Many of these commercial intelligence companies are serviced by in-country providers with researchers on the ground who can obtain information that is not otherwise easily accessible.

Reasonable assurance: What is reasonable depends upon factors including jurisdiction, risk, resources, and technology state of the art. For sanction matches it depends upon information provided by regulators. In all cases the suggested standard is to the civil standard of proof. On the basis of probability.

Relevant adverse information: Information obtained from any source, including the Internet, free and subscription databases and the media, which is directly or indirectly indicative of involvement in money laundering, terrorist financing or predicate offences. Examples include fraud and other dishonesty, drug trafficking, smuggling or other proscribed offences, references to money laundering, or conducting business, residing in or frequenting countries deemed by the Financial Action Task Force and/or (institution) as being countries under sanction or countries with which (institution) does not do business; to official sanctions or watch lists; and to investigations, convictions or disciplinary findings by authorized regulatory by

Money laundering.

Money laundering is the process of transforming the proceeds of crime into ostensibly legitimate money or other assets. However, in a number of legal and regulatory systems, the term money laundering has become conflated with other forms of financial crime, and sometimes used more generally to include misuse of the financial system (involving things such as securities, digital currencies, credit cards, and traditional currency), including terrorism financing and evasion of international sanctions. Most anti-money laundering laws openly conflate money laundering (which is concerned with source of funds) with terrorism financing (which is concerned with destination of funds) when regulating the financial system.

According to the United States Treasury Department:

Money laundering is the process of making illegally-gained proceeds (dirty money) appear legal (clean). Typically, it involves three steps: placement, layering and integration. First, the illegitimate funds are furtively introduced into the legitimate financial system. Then, the money is moved around to create confusion, sometimes by wiring or transferring through numerous accounts. Finally, it is integrated into the financial system through additional transactions until the "dirty money" appears "clean.

Money obtained from certain crimes, such as extortion, insider trading, drug trafficking and illegal gambling is "dirty". It needs to be cleaned to appear to have been derived from legal activities so that banks and other financial institutions will deal with it without suspicion. Money can be laundered by many methods, which vary in complexity and sophistication.

Different countries may or may not treat payments in breach of international sanctions as money laundering. Some jurisdictions differentiate these for definition purposes, and others do not. Some jurisdictions define money laundering as obfuscating sources of money, either intentionally or by merely using financial systems or services that do not identify or track sources or destinations. Other jurisdictions define money laundering to include money from activity that would have been a crime in that jurisdiction, even if it was legal where the actual conduct occurred. This broad brush of applying money laundering to incidental, extraterritorial or simply privacy-seeking behaviors has led some to label it financial thought crime.

Many regulatory and governmental authorities issue estimates each year for the amount of money laundered, either worldwide or within their national economy. In 1996, the International Monetary Fund estimated that two to five percent of the worldwide global economy involved laundered money. The Financial Action Task Force on Money Laundering (FATF), an intergovernmental body set up to combat money laundering, stated, "Overall, it is absolutely impossible to produce a reliable estimate of the amount of money laundered and therefore the FATF does not

publish any figures in this regard. Academic commentators have likewise been unable to estimate the volume of
money with any degree of assurance. Various estimates of the scale of global money laundering are sometimes repeated often enough to make some people regard them as factual—but no researcher has overcome the inherent difficulty of measuring an actively concealed practice.

Regardless of the difficulty in measurement, the amount of money laundered each year is in the billions (US dollars) and poses a significant policy concern for governments. As a result, governments and international bodies have undertaken efforts to deter, prevent, and apprehend money launderers. Financial institutions have likewise undertaken efforts to prevent and detect transactions involving dirty money, both as a result of government requirements and to avoid the reputational risk involved. Issues relating to money laundering have existed as long as there have been large scale criminal enterprises. Modern anti-money laundering laws have developed along with the modern War on Drugs. In more recent times anti-money laundering legislation is seen as adjunct to the financial crime of terrorist financing in that both crimes usually involve the transmission of funds through the financial system (although money laundering relates to where the money has come from, and terrorist financing relating to where the money is going to.

History

The concept of money laundering regulations goes back to ancient times and is intertwined with the development of money and banking. Money laundering is first seen with individuals hiding wealth from the state to avoid taxation or confiscation or a combination of both.

In China, merchants around 2000BCE would hide their wealth from rulers who would simply take it off them and banish them. In addition to hiding it, they would move it and invest it in businesses in remote provinces or even outside China.

Over the millennia many rulers and states imposed rules that would take wealth from their citizens and this led tothe development of offshore banking and tax evasion. One of the enduring methods has been the use of parallel banking or Informal value transfer systems such as *hawala* that allowed people to move money out of the country avoiding state scrutiny.

In the 20th century the seizing of wealth again became popular when it was seen as an additional crime prevention tool. The first time was during the period of prohibition in the United States during the 1930s. This saw a new emphasis by the state and law enforcement agencies to track and confiscate money. Organized crime received a major boost from prohibition and a large source of new funds that were obtained from illegal sales of alcohol.

In the 1980s the war on drugs led governments again to turn to money-laundering rules to try and seize proceeds of drug crime to catch the organizers and individuals running drug empires. It also had the benefit from a law enforcement point of view of turning rules of evidence upside down. Law enforcers normally have to prove an individual is guilty to get a conviction. But with money laundering laws, money can be confiscated and it is up to the individual to prove that the source of funds is legitimate if they want the funds back. This makes it much easier for law enforcement agencies and provides for much lower burdens of proof.

The September 11 attacks in 2001 which led to the Patriot Act in the US and similar legislation worldwide led to a new emphasis on money laundering laws to help stop terrorism financing. The Group of Seven (G7) nations used the Financial Action Task Force on Money Laundering to put pressure on governments around the world to increase surveillance and monitoring of financial transactions and share this information between countries. Starting in 2002 governments around the world upgraded money laundering laws and surveillance and monitoring systems of financial transactions. Anti-money laundering regulations have become a much larger burden for financial institutions and enforcement has stepped up significantly. During 2011-2015 a number of major banks faced ever increasing fines for breaches of money laundering regulations. This included HSBC which was fined $1.9 billion in Dec 2012 and BNP Paribas which was fined $8.9 billion in July 2014 by the US government. Many countries introduced or strengthened border controls on the amount of cash that can be carried and introduced central transaction reporting systems where all financial institutions have to report all financial transactions electronically. For example, Australia set up the AUSTRAC system and required the reporting of all financial transactions.

Method

Money laundering is commonly defined as happening in three steps: the first step involves introducing cash into the financial system by some means ("placement"); the second involves carrying out complex financial transactions to camouflage the illegal source ("layering"); and the final step entails acquiring wealth generated from the transactions of the illicit funds ("integration"). Some of these steps may be omitted, depending on the circumstances. For example, non-cash proceeds that are already in the financial system would have no need for placement.

Enforcement. Anti-money laundering (AML) is a term mainly used in the financial and legal industries to describe the legal controls that require financial institutions and other regulated entities to prevent, detect, and report money laundering activities. Anti-money laundering guidelines came into prominence globally as a result of the formation of

the **Financial Action Task Force (FATF)** and the promulgation of an international framework of anti-money laundering standards. These standards began to have more relevance in 2000 and 2001, after FATF began a process to publicly identify countries that were deficient in their anti-money laundering laws and international cooperation, a process colloquially known as "name and shame".

An effective AML program requires a jurisdiction to have criminalized money laundering, given the relevant regulators and police the powers and tools to investigate; be able to share information with other countries as appropriate; and require financial institutions to identify their customers, establish risk-based controls, keep records, and report suspicious activities.

Criminalizing money laundering

The elements of the crime of money laundering are set forth in the United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances and Convention against Transnational Organized Crime. It is defined as knowingly engaging in a financial transaction with the proceeds of a crime for the purpose of concealing or disguising the illicit origin of the property from governments.

The role of financial institutions

While banks operating in the same country generally have to follow the same AML (Anti-Money Laundering) laws and regulations, financial institutions all structure their AML (Anti-Money Laundering) efforts slightly differently. Today, most financial institutions globally, and many non-financial institutions, are required to identify and report transactions of a suspicious nature to the financial intelligence unit in the respective country. For example, a bank must verify a customer's identity and, if necessary, monitor transactions for suspicious activity. This is often termed as "know your customer". This means knowing the identity of the customer and understanding the kinds of transactions in which the customer is likely to engage. By knowing one's customers, financial institutions can often identify unusual or suspicious behavior, termed anomalies, which may be an indication of money laundering.

Bank employees, such as tellers and customer account representatives, are trained in anti-money laundering and are instructed to report activities that they deem suspicious. Additionally, anti-money laundering software filters customer data, classifies it according to level of suspicion, and inspects it for anomalies. Such anomalies include any sudden and substantial increase in funds, a large withdrawal, or moving money to a bank secrecy jurisdiction. Smaller transactions that meet certain criteria may also be flagged as suspicious. For example, structuring can lead to flagged transactions. The software also flags names on government "blacklists" and transactions that involve countries hostile to the host nation. Once the software has mined data and flagged suspect transactions, it alerts bank management, who must then determine whether to file a report with the government.

Global Organizations working against money laundering

Formed in 1989 by the G7 countries, the **FATF** is an intergovernmental body whose purpose is to develop and promote an international response to combat money laundering. The FATF Secretariat is housed at the headquarters of the OECD in Paris. In October 2001, FATF expanded its mission to include combating the financing of terrorism. FATF is a policy-making body that brings together legal, financial, and law enforcement experts to achieve national legislation and regulatory AML and CFT reforms. As of 2014 its membership consists of 36 countries and territories and two regional organizations. FATF works in collaboration with a number of international bodies and organizations. These entities have observer status with FATF, which does not entitle them to vote, but permits them full participation in plenary sessions and working groups.

FATF has developed 40 recommendations on money laundering and 9 special recommendations regarding terrorist financing. FATF assesses each member country against these recommendations in published reports. Countries seen as not being sufficiently compliant with such recommendations are subjected to financial sanctions.

FATF's three primary functions with regard to money laundering are:

1 Monitoring members' progress in implementing anti-money laundering measures. 2 Reviewing and reporting on laundering trends, techniques, and countermeasures.

3 .Promoting the adoption and implementation of FATF anti-money laundering standards globally.

The FATF currently comprises 34 member jurisdictions and 2 regional organizations, representing most major financial centres in all parts of the globe:

Argentina, Australia ,Austria, Belgium, Brazil, France, Germany, Greece, Gulf Cooperation Council, Hong Kong, Iceland, **India** ,Ireland, Italy ,Japan Luxembourg, Mexico, Netherlands, New Zealand, Norway, Portugal, Russia, Singapore ,South Africa, South Korea, Spain, Sweden, Switzerland, Turkey, United Kingdom. United States.

The United Nations Office on Drugs and Crime maintains the International Money Laundering Information Network, a website that provides information and software for anti-money laundering data collection and analysis. The World Bank has a website that provides policy advice and best practices to governments and the private sector on anti- money laundering issues.

Laws and enforcement by region

Many jurisdictions adopt a list of specific predicate crimes for money laundering prosecutions, while otherscriminalize the proceeds of any serious crimes.

India

In 2002, the Parliament of India passed an act called the Prevention of Money Laundering Act, 2002. The main objectives of this act are to prevent money-laundering as well as to provide for confiscation of property either derived from or involved in, money-laundering.

Section 12 (1) describes the obligations that banks, other financial institutions, and intermediaries have to (a) Maintain records that detail the nature and value of transactions, whether such transactions comprise a single transaction or a series of connected transactions, and where these transactions take place within a month.(b) Furnish information on transactions referred to in clause (a) to the Director within the time prescribed, including records of the identity of all its clients.

Section 12 (2) prescribes that the records referred to in sub-section (1) as mentioned above, must be maintained for ten years after the transactions finished. It is handled by the Indian Income Tax Department.

The provisions of the Act are frequently reviewed and various amendments have been passed from time to time. The recent activity in money laundering in India is through political parties, corporate companies and the shares market. It is investigated by the Enforcement Directorate and Indian Income Tax Department. According to Government of India, out of the total tax arrears of ₹2480 billion (US$37 billion) about ₹1300 billion (US$19 billion) pertains to money laundering and securities scam cases.

Bank accountants must record all transactions over Rs. 1 million. Bank accountants must maintain this records for 10 years. Banks also must make cash transaction reports (CTRs) and suspicious transaction reports over RS. 1 million within 7 days of doubt. They must submit their reports to the Enforcement Directorate and income tax department. **United Kingdom**.

Money laundering and terrorist funding legislation in the UK is governed by four Acts of primary legislation:- Terrorism Act 2000. , Anti-terrorism, Crime and Security Act 2001., Proceeds of Crime Act 2002.

Serious Organised Crime and Police **Act** 2005, Money Laundering Regulations 2007.

Money Laundering Regulations are designed to protect the UK financial system, as well as preventing and detecting crime. If a business is covered by these regulations then controls are put in place to prevent it being used for money laundering.

The Proceeds of Crime Act 2002 contains the primary UK anti-money laundering legislation,[including provisions requiring businesses within the "regulated sector" (banking, investment, money transmission, certain professions, etc.) to report to the authorities suspicions of money laundering by customers or others.

Money laundering is broadly defined in the UK. In effect any handling or involvement with any proceeds of any crime (or monies or assets representing the proceeds of crime) can be a money laundering offence. An offender's possession of the proceeds of his own crime falls within the UK definition of money laundering.

The definition also covers activities within the traditional definition of money laundering, as a process that conceals or disguises the proceeds of crime to make them appear legitimate.

Unlike certain other jurisdictions (notably the US and much of Europe), UK money laundering offences are not limited to the proceeds of serious crimes, nor are there any monetary limits. Financial transactions need no money laundering design or purpose for UK laws to consider them a money laundering offence. A money laundering offence under UK legislation need not even involve money, since the money laundering legislation covers assets of any description. In consequence, any person who commits an acquisitive crime (i.e., one that produces some benefit in the form of money or an asset of any description) in the UK inevitably also commits a money laundering offence under UK legislation.

This applies also to a person who, by criminal conduct, evades a liability (such as a taxation liability)—which lawyers call "obtaining a pecuniary advantage"—as he is deemed thereby to obtain a sum of money equal in value to the liability evaded.

The principal money laundering offences carry a maximum penalty of 14 years imprisonment.

Secondary regulation is provided by the Money Laundering Regulations 2003, which was replaced by the Money Laundering Regulations 2007. They are directly based on the EU directives 91/308/EEC, 2001/97/EC and 2005/60/EC. One consequence of the Act is that solicitors, accountants, tax advisers, and insolvency practitioners who suspect (as a consequence of information received in the course of their work) that their clients (or others) have engaged in tax evasion or other criminal conduct that produced a benefit, now must report their suspicions to the authorities (since these entail suspicions of money laundering). In most circumstances it would be an offence, "tipping-off", for the reporter to inform the subject of his report that a report has been made. These provisions do not however require disclosure to the authorities of information received by certain professionals in privileged circumstances or where the information is subject to legal professional privilege. Others that are subject to these regulations include financial institutions, credit institutions, estate agents (which includes chartered surveyors), trust and company service providers, high value dealers (who accept cash equivalent to €15,000 or more for goods sold), and casinos.

Professional guidance (which is submitted to and approved by the UK Treasury) is provided by industry groups including the Joint Money Laundering Steering Group, the Law Society. and the Consultative Committee of Accountancy Bodies (CCAB). However, there is no obligation on banking institutions to routinely report monetary deposits or transfers above a specified value. Instead reports must be made of all suspicious deposits or transfers, irrespective of their value.

The reporting obligations include reporting suspicious gains from conduct in other countries that would be criminal if it took place in the UK. Exceptions were later added for certain activities legal where they took place, such as bullfighting in Spain.

More than 200,000 reports of suspected money laundering are submitted annually to authorities in the UK (there were 240,582 reports in the year ended 30 September 2010. This was an increase from the 228,834 reports submitted in the previous year). Most of these reports are submitted by banks and similar financial institutions (there were 186,897 reports from the banking sector in the year ended 30 September 2010).

Although 5,108 different organisations submitted suspicious activity reports to the authorities in the year ended 30 September 2010 just four organisations submitted approximately half of all reports, and the top 20 reporting organisations accounted for three-quarters of all reports.

The offence of failing to report a suspicion of money laundering by another person carries a maximum penalty of 5 years imprisonment.

United States.

The approach in the United States to stopping money laundering is usually broken into two areas: preventive (regulatory) measures and criminal measures.

Preventive.

In an attempt to prevent dirty money from entering the U.S. financial system in the first place, the United States Congress passed a series of laws, starting in 1970, collectively known as the **Bank Secrecy Act (BSA**). These laws, contained in sections 5311 through 5332 of Title 31 of the United States Code, require financial institutions, which under the current definition include a broad array of entities, including banks, credit card companies, life insurers, money service businesses and broker-dealers in securities, to report certain transactions to the United States Department of the Treasury. Cash transactions in excess of a certain amount must be reported on a currency transaction report (CTR), identifying the individual making the transaction as well as the source of the cash. The law originally required all transactions of US$5,000 or more to be reported, but due to excessively high levels of reporting the threshold was raised to US$10,000. The U.S. is one of the few countries in the world to require reporting of all cash transactions over a certain limit, although certain businesses can be exempt from the requirement. Additionally, financial institutions must report transaction on a **Suspicious Activity Report (SAR)** that they deem "suspicious", defined as a knowing or suspecting that the funds come from illegal activity or disguise funds from illegal activity, that it is structured to evade BSA requirements or appears to serve no known business or apparent lawful purpose; or that the institution is being used to facilitate criminal activity. Attempts by customers to circumvent the BSA, generally by structuring cash deposits to amounts lower than US$10,000 by breaking them up and depositing them on different days or at different locations also violates the law.

The financial database created by these reports is administered by the **U.S.'s Financial Intelligence Unit** (FIU), called the **Financial Crimes Enforcement Network** (FinCEN), located in **Vienna, Virginia**. The reports are made available to

U.S. criminal investigators, as well as other FIU's around the globe, and FinCEN conducts computer assisted analyses of these reports to determine trends and refer investigations.

The BSA requires financial institutions to engage in customer due diligence, which is sometimes known in the parlance as know your customer. This includes obtaining satisfactory identification to give assurance that the account is in the customer's true name, and having an understanding of the expected nature and source of the money that flows through the customer's accounts. Other classes of customers, such as those with private banking accounts and those of foreign government officials, are subjected to enhanced due diligence because the law deems that those types of accounts are a higher risk for money laundering. All accounts are subject to ongoing monitoring, in which internal bank software scrutinizes transactions and flags for manual inspection those that fall outside certain parameters. If a manual inspection reveals that the transaction is suspicious, the institution should file a Suspicious Activity Report.

The regulators of the industries involved are responsible to ensure that the financial institutions comply with the **BSA.** For example, the Federal Reserve and the Office of the Comptroller of the Currency regularly inspect banks, and may impose civil fines or refer matters for criminal prosecution for non-compliance. A number of banks have been fined and prosecuted for failure to comply with the BSA. Most famously, Riggs Bank, in Washington D.C., was prosecuted and functionally driven out of business as a result of its failure to apply proper money laundering controls, particularly as it related to foreign political figures.

In addition to the BSA, the U.S. imposes controls on the movement of currency across its borders, requiring individuals to report the transportation of cash in excess of US$10,000 on a form called Report of International Transportation of Currency or Monetary Instruments (known as a CMIR).Likewise, businesses, such as automobile dealerships, that receive cash in excess of US$10,000 must file a Form 8300 with the Internal Revenue Service, identifying the source of the cash.

SARFAESI Act 2002

The full form of SARFAESI Act as we know is Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002. Banks utilize this act as an effective tool for bad loans (NPA) recovery. It is possible where non-performing assets are backed by securities charged to the Bank by way of hypothecation or mortgage or assignment.

•Upon loan default, banks can seize the securities (except agricultural land) without intervention of the court.

•SARFAESI is effective only for secured loans where bank can enforce the underlying security eg hypothecation, pledge and mortgages. In such cases, court intervention is not necessary, unless the security is invalid or fraudulent. However, if the asset in question is an unsecured asset, the bank would have to move the court to file civil case against the defaulters.

How it works?

The SARFAESI Act, 2002 gives powers of "seize and desist" to banks. Banks can give a notice in writing to the defaulting borrower requiring it to discharge its liabilities within 60 days. If the borrower fails to comply with the notice, the Bank may take recourse to one or more of the following measures:

•Take possession of the security for the loan

•Sale or lease or assign the right over the security

•Manage the same or appoint any person to manage the same

The SARFAESI Act also provides for the establishment of Asset Reconstruction Companies (ARCs) regulated by RBI to acquire assets from banks and financial institutions. The Act provides for sale of financial assets by banks and financial institutions to asset reconstruction companies (ARCs). RBI has issued guidelines to banks on the process to be followed for sales of financial assets to ARCs.

Background of the act The previous legislation enacted for recovery of the default loans was Recovery of Debts due to Banks and Financial institutions Act ,1993. This act was passed after the recommendations of the Narsimham Committee – I were submitted to the government. This act had created the forums such as Debt Recovery Tribunals and Debt Recovery Appellate Tribunals for expeditious adjudication of disputes with regard to ever increasing non- recovered dues. However, there were several loopholes in the act and these loopholes were mis-used by the borrowers as well as the lawyers. This led to the government introspect the act and this another committee under Mr. Andhyarujina was appointed to examine banking sector reforms and consideration to changes in the legal system .

•This committee recommended to enact a new legislation for the establishment of securitisation and reconstruction companies and to empower the banks and financial institutions to take possession of the Non-performing assets.

Thus, via the Sarfaesi act, for the first time, the secured creditors were empowered to recover their dues without the intervention of the court.

•However, as soon as the act was passed, its implementation was challenged in the court and this delayed its coming into force for 2 years. In the Mardia Chemicals v. Union of India, the Supreme Court upheld the validity of the SARFAESI act was upheld.

Rights of Borrowers The above observations make it clear that the SAFAESI act was able to provide the effective measures to the secured creditors to recover their long standing dues from the Non-performing assets, yet the rights of the borrowers could not be ignored, and have been duly incorporated in the law.

•The borrowers can at any time before the sale is concluded, remit the dues and avoid loosing the security.

•In case any unhealthy/illegal act is done by the Authorised Officer, he will be liable for penal consequences.

•The borrowers will be entitled to get compensation for such acts.

•For redressing the grievances, the borrowers can approach firstly the DRT and thereafter the DRAT in appeal. The limitation period is 45 days and 30 days respectively

Pre-conditions The Act stipulates four conditions for enforcing the rights by a creditor.

•The debt is secured

•The debt has been classified as an NPA by the banks

•The outstanding dues are one lakh and above and more than 20% of the principal loan amount and interest there
on.
•The security to be enforced is not an Agricultural land.

Methods of Recovery According to this act, the registration and regulation of securitization companies or reconstruction companies is done by RBI. These companies are authorized to raise funds by issuing security receipts to qualified institutional buyers (QIBs), empowering banks and Fls to take possession of securities given for financial assistance and sell or lease the same to take over management in the event of default.

This act makes provisions for two main methods of recovery of the NPAs as follows:

•**Securitization:** Securitisation is the process of issuing marketable securities backed by a pool of existing assets such as auto or home loans. After an asset is converted into a marketable security, it is sold. A securitization company or reconstruction company may raise funds from only the QIB (Qualified Institutional Buyers) by forming schemes for acquiring financial assets.

•**Asset Reconstruction:** Enacting SARFAESI Act has given birth to the Asset Reconstruction Companies in India. It can be done by either proper management of the business of the borrower, or by taking over it or by selling a part or whole of the business or by rescheduling of payment of debts payable by the borrower enforcement of security interest in accordance with the provisions of this Act.

Further, the act provides Exemption from the registration of security receipt. This means that when the securitization company or reconstruction company issues receipts, the holder of the receipts is entitled to undivided interests in the financial assets and there is not need of registration unless and otherwise it is compulsory under the Registration Act 1908.

However, the registration of the security receipt is required in the following cases:

•There is a transfer of receipt

•The security receipt is creating, declaring, assigning, limiting, extinguishing any right title or interest in a immovable property.

Is Mortgaged House exempted?

The Sarfaesi act covers any asset, movable or immovable, given as security whether by way of mortgage, hypothecation or creation of a security interest. There are some exceptions in the act such as personal belongings. However, only that property given as security can be proceeded under the provisions of SARFAESI Act. If the property of the borrower is his own mortgaged residential house, it is also NOT exempted from the Sarfaesi act.

Powers of Debt Recovery Tribunal

The debt Recovery Tribunals have been empowered to entertain appeals against the misuse of powers given to banks. Any person aggrieved, by any order made by the Debts Recovery Tribunal may go to the Appellate Tribunal within thirty days from the date of receipt of the order of Debts Recovery Tribunal.

Role of Chief Metropolitan Magistrate or District Magistrate

The Chief Metropolitan Magistrate or District Magistrate has been mandated to assist secured creditor in taking possession of secured asset. These officers will make sure that once the creditor has given him in writing that all other formalities of the act have been done, the CMM or DM will take possession of such asset and documents relating thereto; and forward such assets and documents to the secured creditor. Now, here, you have to note that such an act of the CMM or DM cannot be called in question in any court or before any authority.

Role of High Court: The act allows taking the matter to high courts only in some matters related to the implementation of the act in Jammu & Kashmir. However, High Courts have been entertaining writ petitions under article 226 (Power to issue writs) of the constitution of India.

Proposed amendments to the Act The government had approved bill to amend the act. The Enforcement of Security Interest and Recovery of Debts Laws (Amendment) Bill, 2011, amends two Acts — Sarfaesi Act 2002, and Recovery of Debts Due to Banks and Financial Institutions Act, 1993 (DRT Act). Via these amendments:

•Banks and asset reconstruction companies (ARCs) will be allowed to convert any part of the debt of the defaulting company into equity. Such a conversion would imply that lenders or ARCs would tend to become an equity holder rather than being a creditor of the company.

•The amendments also allows banks to bid for any immovable property they have put out for auction themselves, if they do not receive any bids during the auction. In such a scenario, banks will be able to adjust the debt with the amount paid for this property. This enables the bank to secure the asset in part fulfillment of the defaulted loan.

•Banks can then sell this property to a new bidder at a later date to clear off the debt completely.

However lenders will be able to carry this property on their books only for seven years, as per the Banking Regulation Act, 1949.

Banking Ombudsman

Introduction

An ombudsman is a person who has been appointed to look into complaints about an organization. Using an ombudsman is a way of trying to resolve a complaint without going to court. Banking Ombudsman is a quasi-judicial authority functioning under India's Banking Ombudsman Scheme, and the authority was created pursuant to the a decision by the Government of India to enable resolution of complaints of customers of banks relating to certain services rendered by the banks.

The institution of Banking Ombudsman was introduced in 1995 in India, through the Banking Ombudsman Scheme 1995. The Scheme was implemented through direction issued by the Reserve Bank in terms of Section 35A of the Banking Regulation Act, 1949, to protect the banking in public interest and in the interest of banking policy.

It was a mechanism to look into the banking customer grievances. After the review of the scheme, a new scheme came into picture in 2002 and further in 2006. Over the past five years, around 36,000 complaints have been dealt by the Banking Ombudsmen.4.

Banking Ombudsman : In the wake of the failure in the efficient services of the banks, the RBI brought the Banking Ombudsman Scheme for the prompt, efficient and courteous services and also to protect the rights of the customers5.

The Banking Ombudsman is an official authority to investigate the complaint from the customers6 and address the complaint and thereby bring the solution among the aggrieved parties7. So the Banking Ombudsman plays the role of a mediator and serves the purpose of reconciliation8. The Banking Ombudsman has been defined under clause 4 of the Banking Ombudsman Scheme, 20069. Clause 4 lays down that:

Appointment & Tenure. (1) The Reserve Bank may appoint one or more of its officers in the rank of Chief General Manager or General Manager to be known as Banking Ombudsmen to carry out the functions entrusted to them by or under the Scheme.

(2) The appointment of Banking Ombudsman under the above Clause may be made for a period not exceeding three years at a time.

Banking Ombudsman Scheme, 2006

Scope of the Scheme: In 2006, the Reserve Bank of India announced the revised Banking Ombudsman Scheme with enlarged scope that included customer complaints on certain new areas, such as, credit card complaints, deficiencies in providing the promised services even by banks' sales agents, levying service charges without prior notice to the customer and non -adherence to the fair practices code as adopted by individual banks.

Application of the Scheme: The scheme is applicable to all commercial banks, regional rural banks and scheduled primary cooperative banks having business in India.

Funding: Unlike the old scheme, the revised Banking Ombudsman Scheme is fully staffed and funded by the Reserve Bank instead of the banks.

Filing of Complaint:. Under the revised Banking Ombudsman Scheme, the complainants can file their complaints in any form, including online.

Appeal: The bank customers would also be able to appeal to the Reserve Bank against the awards given by the Banking Ombudsmen.

Forum for the complaints: The 2006 scheme provides a forum to bank customers to seek redressal of their most common complaints against banks, including those relating to credit cards, service charges, promises given by the sales agents of banks, but not kept by banks, as also, delays in delivery of bank services.

New areas of Complaint: The bank customers can complain about non-payment or any inordinate delay in payments or collection of cheques towards bills or remittances by banks, as also non-acceptance of small denomination notes and coins or charging of commission for acceptance of small denomination notes and coins by banks.

Provisions of the Scheme: The Banking Ombudsman Scheme 2006 provides a wide scope and extent to the schemes of 1995 and 2002. Many new changes have been made in the old scheme. The most essential provisions of the scheme are as follows:

1. **Appointment and tenure**. The Section 4 of the scheme provides for the appointment of one or more of the officers of the Reserve Bank of India in the rank of Chief General Manager or General Manager to be known as Banking Ombudsmen to carry out the functions entrusted to them by or under the Scheme. Their tenure would not be more than a period of five years.

2. **Location of the office.** Generally, the office of the banking ombudsman is located at the place specified by the Reserve Bank of India. For the expedite disposal of the complaints, a banking ombudsman may hold office at such places, under his jurisdiction which he deems fit for the disposal of the complaints10.

3. **Powers and Jurisdictions**. The scheme lays down the following provisions11 dealing with powers and functions of the Banking Ombudsman:

• Authority of each Banking Ombudsman extends to the territorial limits entailed by the Reserve Bank of India

• The Banking Ombudsman has power to receive and consider complaints relating to the deficiencies in banking or other services filed on the grounds of complaints12. He has to facilitate their satisfaction or settlement by agreement or through conciliation and mediation between the bank concerned and the aggrieved parties or by passing an Award in accordance with the Scheme.

• The Banking Ombudsman exercises general powers of superintendence and control over his Office and is responsible for the conduct of business thereat.

• The Office of the Banking Ombudsman draws up an annual budget for itself in consultation with Reserve Bank and exercises the powers of expenditure within the approved budget on the lines of Reserve Bank of India Expenditure Rules, 2005.

The Banking Ombudsman has to send to the Governor, Reserve Bank, a report, as on 30th June every year, containing a general review of the activities of his Office during the preceding financial year. He has to furnish such other information as the Reserve Bank may direct and the Reserve Bank may, if it considers necessary in the public interest so to do, publish the report and the information received from the Banking Ombudsman in such consolidated form or otherwise as it deems fit.

4. **Grounds of complaints**. Clause 8 of the scheme lays down the following grounds on which a banking customer may seek the redressal from the banking ombudsman:

• Non-payment or inordinate delay in the payment or collection of cheques, drafts, bills, etc.;

• Non-acceptance, without sufficient cause, of small denomination notes tendered for any purpose, and for charging of commission for this service;

• Non-acceptance, without sufficient cause, of coins tendered and for charging of commission for this service;

• Non-payment or delay in payment of inward remittances;

• Failure to issue or delay in issue, of drafts, pay orders or bankers' cheques;

• Non-adherence to prescribed working hours;

• Failure to honour guarantee or letter of credit commitments;

• Failure to provide or delay in providing a banking facility (other than loans and advances) promised in writing by a bank or its direct selling agents;

• Delays, non-credit of proceeds to parties' accounts, non-payment of deposit or non-observance of the Reserve Bank directives, if any, applicable to rate of interest on deposits in any savings, current or other account maintained with a bank

• Delays in receipt of export proceeds, handling of export bills, collection of bills etc., for exporters provided the said complaints pertain to the bank's operations in India;

• Refusal to open deposit accounts without any valid reason for refusal;

• Levying of charges without adequate prior notice to the customer;

• Non-adherence by the bank or its subsidiaries to the instructions of Reserve Bank on ATM/debit card operations or credit card operations;

• Non-disbursement or delay in disbursement of pension to the extent the grievance can be attributed to the action on the part of the bank concerned, (but not with regard to its employees);

• Refusal to accept or delay in accepting payment towards taxes, as required by Reserve Bank/Government;

• Refusal to issue or delay in issuing, or failure to service or delay in servicing or redemption of Government securities;

• Forced closure of deposit accounts without due notice or without sufficient reason;

• Refusal to close or delay in closing the accounts;

• Non-adherence to the fair practices code as adopted by the bank; and

• Any other matter relating to the violation of the directives issued by the Reserve Bank in relation to banking or other services.

5. **Procedure for filing complaint**. Clause 9 of the Banking Ombudsman Scheme, 2006 lays down the procedure to file a complaint before the Banking Ombudsman as well as the conditions in which a complainant cannot approach the banking ombudsman.

1. Any person who has a grievance against a bank on any one or more of the grounds mentioned in the Scheme may, himself or through his authorized representative (other than an advocate), make a complaint to the Banking Ombudsman within whose jurisdiction the branch or office of the bank complained against is located. But the complaint arising out of the operations of credit cards, has to be filed before the Banking Ombudsman within whose territorial jurisdiction the billing address of the card holder is located and not the place where the bank concerned orthe credit card processing unit is located.

2. The complaint in writing has to be duly signed by the complainant or his authorized representative. The

complainant has to show the copies of the documents, which he proposes to rely upon and a declaration underClause 9(3) of the scheme. He has to mention the following things in the complaint:

- the name and the address of the complainant,
- the name and address of the branch or office of the bank against which the complaint is made,
- the facts giving rise to the complaint,
- the nature and extent of the loss caused to the complainant, and
- The relief sought for.

The Banking Ombudsman also entertains complaints covered by this Scheme received by Central Government orReserve Bank and forwarded to him for disposal.

Following conditions have to be fulfilled for making a complaint before the Banking Ombudsman:

- Before making a complaint to the Banking Ombudsman, the complainant had to, make a written representation to the bank. If the bank rejects the complaint or the complainant had not received any reply within a period of one month after the bank received his representation or the complainant is not satisfied with the reply given to him by the bank.
- The complaint should be made before one year, from the day the complainant has received the reply of the bankto his representation or, where no reply is received, before one year and one month from the date of the representation to the bank;
- The complaint does not touch upon matter which was settled or dealt with on merits by the Banking Ombudsman in any previous proceedings whether or not received from the same complainant or along with one or morecomplainants or one or more of the parties concerned with the subject matter;
- The complaint does not pertain to the same subject matter, for which any proceedings before any court, tribunalor arbitrator or any other forum is pending or a decree or Award or order has been passed by any such court, tribunal, arbitrator or forum;
- The complaint is not frivolous or vexatious in nature; and
- The complaint is made before the expiry of the period of limitation prescribed under the Indian Limitation Act, 1963 for such claims.

Appeal: If the customer is not satisfied with the award of the Banking Ombudsman, he can approach to the RBI, to the appellate authority called Deputy Governor. Still he is not satisfied, after approaching to the RBI, he can go to theHigh Court.

Cases Concerning the Banking Services: Following are the cases, through which it can be ascertained that what the grievances have been handled by the Banking Ombudsman Scheme:

1. **Failure to issue bank guarantee.** The bank was alleged to have failed to issue bank guarantee despite sufficient security and the complainant suffered financial loss. It was held that the non-issuance of bank guarantee despite security deposit with the bank would amount to deficiency in service and the complainant

was held entitled to interest on that security amount.

2. **Failure to confirm remittance**. In one of the cases, the complainant's son remitted an amount from abroad to be credited to his NRI account with appellant bank. The remittance was not confirmed till a long time. Appellant bank pleaded that non-confirmation was due to failure of computers. The issue is whether this delay on the part of the bank amounted to deficiency in service. The Commission in appeal observed that bank officials could have verified vouchers and cheques received by post or confirmation and could have given correct reply within a reasonable time. It was held that failure of the bank to confirm remittance received from outside country within a reasonable period amounts to deficiency in service.

3. **Deficiency in services**. In most of the cases against the banks, the costumers have alleged the deficiency in services provided by the banks.

a. **Issues of cash credit facility**. The appellant had the cash credit facility from 1994 with respondent bank and also he had issued two cheques of which one was en-cashed and the other was dishonored. Respondent bank averred that appellant had overdrawn account. It was held that when there was credit in favour of the complainant, dishonour of the cheque issued by the complainant could not be said to be bona fide. Respondent bank was held guilty of deficiency of service and appellant was held entitled for compensation.

b. **Issues of discounting agreement**. Further in the case of Corporation Bank & Anr v. Navin J. Shah,18 the Respondent was an exporter. Under discounting agreement, he entrusted documents relating to export and bills of exchange with appellant bank to negotiate the same through a foreign bank. Respondent alleged that the bank had failed to collect money in foreign currency indicated in documents but instead collected in local currency, hence there was deficiency in service on the part of the appellant bank and hence a claim for damages was made. In appeal, the Commission held that there was no deficiency of service on the part of the bank as the appellant bank, acting for an on behalf of the respondent, had negotiated the documents as provided under agreement However

the conversion of local currency in U.S. dollar became difficult on account of policy of Sudan Government. It was observed that all that was required to be done under terms of the agreement and under contract had been done by the two banks.

c. **Issues of dividend warrants**. In the case of Anthony C. Vaz v. M/s Himachal Futuristic Communication Ltd & Anr19, dividend warrants were issued by respondent No.1 and were sought to be encashed by respondent No.2, Banker at Panaji. The appellant filed a complaint before the District Forum as the warrants were returned unpaid with the remarks 'No advice' despite a letter dispatched to them by Industrial Financial Branch of SBI, Chandigarh. Respondent No.2 took the defense that they cannot honour dividend warrants unless they received intimation from local Head Office at Mumbai. The State Commission however held that refusal to clear the dividend warrant was deficiency in service as question of respondent No.2 having no authority to honour the warrants could not arise in view of the letter from Industrial Financial Branch of SBI, Chandigarh. Respondent No. 2 and Respondent No. 1 were held to be jointly liable.

d. **Non-payment of premium**. In Manohar Singh Chouhan & Ors Vs. Central Bank of India20, the complainants have purchased a tractor after taking loan from the respondent bank. The respondent bank did not remit the premium amount to the insurance company with which the complainants have insured their tractor as a result of which the loss suffered when the tractor met with an accident could not be recovered from the insurance company. The issue for consideration is whether non- payment of premium amount by the bank amounted to deficiency in service. It was held that when hire purchase agreement between the bank and buyer of vehicle with the help of bank loan did not contain a condition creating obligation on the part of the bank to remit premium for insurance policy, complainant buyer of vehicle could not hold bank guilty of deficiency in service.

e. **Absence of security**. In a case concerning the security at the banking premises, cash was snatched from the hands of the complainant at the gate of the respondent bank. The appellant alleges that the absence of security on the gate and the non-provision of steps like siren/alarm system etc. amounts to deficiency in service on the part of the respondent bank. The State Commission held that the non-provision of security on the gate of the bank on the date of occurrence viz. snatching of cash in bank premises cannot be held to be amounting to deficiency in service hiredby complainant.

f. **Charging for services without consent**. The Bank charged, unilaterally without prior information or consent of the Bank Customer, for providing their services by supply of MICR Cheque. Consumer Forum and State Commission held it as deficiency of service but National Commission held that it was related to pricing and not in jurisdiction of the Consumer Fora to decide. The Supreme Court held that the charges by bank for issuance of MICR cheques, is not against the directives of the Reserve Bank of India. The question of it, being unilateral or with the consent of each customer does not arise.

g. **Issue of Overdraft facility**. In the case of India Export Corporation & ors Vs. Chairman-cum-MD, Syndicate Bank & ors, the complainant withdrew overdraft facility sanctioned to him by the bank only after availing facility to the extent of Rs.1,20,000/-. The facility was availed by the complainant for business purpose. It was held that where complaint alleging banking service deficiency was found connected with commercial purpose, the consumer complaint would not be maintainable.

h. **Cancellation of Pay Order**. In the case of Ratanchand Morarkar v. Bank of Maharashtra,24 the complainant had deposited amount for issue of pay order in favour of a particular firm. However, the said pay order was cancelled by the bank and was issued in favour of another party. It was held that when the bank has acted in good faith in cancellation of bank pay order and issuance of fresh pay order in favour of another party on the request made by Manager of the complainant firm, there would be no deficiency in service.

Banking Ombudsman Scheme- How Different From the Schemes of 1995 And 2002.

The extent and scope of the new Scheme is wider than the earlier Scheme of 2002. The new Scheme also providesfor online submission of complaints. The new Scheme additionally provides for the institution of an 'appellate authority' for providing scope for appeal against an award passed by the Ombudsman both by the bank as well asthe complainant.

Power to Arbitrate The powers of the Banking Ombudsman have been widened to include the powers to arbitrate between inter-bank disputes and bank-customer disputes. The ombudsmen, thus, can address disputes pertaining to regional rural banks in addition to commercial banks and scheduled primary co-operative bank.

Achievements During the year 2010-11, the complaints received against member banks were quite reduced to 573 as compared to 750 complaints in the previous year26. This is according to the Banking Codes and Standards Boardof India indicative of greater awareness among bank customers.27 The table given below explains the type of complaints filed in recent years. On the contrary, the number of complaints against banking services has been on rise

in Northeast India. The Banking Ombudsman for Northeast India has received 708 numbers of complaints till June
2012.

Priority Sector Lending

At a meeting of the National Credit Council held in July 1968, it was emphasized that commercial banks should increase their involvement in the financing of priority sectors, viz., agriculture and small scale industries. The description of the priority sectors was later formalized in 1972 on the basis of the report submitted by the Informal Study Group on Statistics relating to advances to the Priority Sectors constituted by the Reserve Bank in May 1971. On the basis of this report, the Reserve Bank prescribed a modified return for reporting priority sector advances and certain guidelines were issued in this connection indicating the scope of the items to be included under the various categories of priority sector. Although initially there was no specific target fixed in respect of priority sector lending, in November 1974 the banks were advised to raise the share of these sectors in their aggregate advances to the level of 33.33% by March 1979.

At a meeting of the Union Finance Minister with the Chief Executive Officers of public sector banks held in March 1980, it was agreed that banks should aim at raising the proportion of their advances to priority sector to 40 percent by March 1985. Subsequently, on the basis of the Recommendations of the Working Group on the Modalities of Implementation of Priority Sector Lending and the Twenty Point Economic Programme by Banks (Chairman: Dr. K. S. Krishnaswamy), all commercial banks were advised to achieve the target of priority sector lending at 40 percent of aggregate bank advances by 1985. Sub-targets were also specified for lending to agriculture and the weaker sections within the priority sector. Since then, there have been several changes in the scope of priority sector lending and the targets and sub-targets applicable to various bank groups.

The guidelines were last revised in the year 2007 based on the recommendations made in September 2005 by the Internal Working Group of the RBI (Chairman: Shri C. S. Murthy). The Sub-Committee of the Central Board of the Reserve Bank (Chairman : Shri Y. H. Malegam) constituted to study issues and concerns in the Micro Finance institutions (MFI) sector, inter alia, had recommended review of the guidelines on priority sector lending.

Accordingly, Reserve Bank of India in August 2011 set up a Committee to re-examine the existing classification and suggest revised guidelines with regard to Priority Sector lending classification and related issues (Chairman: M V Nair). The recommendations of the committee were placed in the public domain inviting public comments. The recommendations of the Committee were examined based on the interface with various stakeholders and in the light of the comments / suggestions received from Government of India, banks, financial institutions, Non-Banking Financial Companies, Associations of industries, public and Indian Banks' Association; and revised guidelines were issued on October 8, 2013 in supersession of guidelines mentioned in the Master Circular , 2012.

Categories under priority sector

(i) Agriculture (ii) Micro and Small Enterprises (iii) Education Loans (iv)Housing Loans (v) Others

The targets under priority sector lending would be linked to Adjusted Net Bank Credit (ANBC) (total loans and advance minus bills rediscounted with RBI and other approved Financial Institutions plus investments made after August 30, 2007 in non-SLR bonds under HTM category) or Credit Equivalent amount of Off-Balance Sheet Exposures (OBE), whichever is higher, as on March 31 of the previous year. For the purpose of calculation of credit equivalent of off-balance sheet exposures, banks may use current exposure method. Inter-bank exposures including inter-bank off-balance sheet exposures will not be taken into account for the purpose of priority sector lending targets / sub- targets.

The targets and sub-targets set under priority sector lending for UCBs are furnished below. The stipulation regarding priority sector lending is not applicable to the Salary Earners' Banks.

Total Priority Sector 40 percent of Adjusted Net Bank Credit or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher.

Total agriculture -No target. {**Micro & Small Enterprises (MSE) }**

(i) Advances to micro and small enterprises sector will be reckoned in computing achievement under the overall priority sector target of 40 percent of ANBC or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher.

(ii) 40 percent of total advances to micro and small enterprises sector should go to Micro (manufacturing) enterprises having investment in plant and machinery up to ` 10 lakh and micro (service) enterprises having investment in equipment up to ` 4 lakh;

(iii) 20 percent of total advances to micro and small enterprises sector should go to Micro (manufacturing) enterprises with investment in plant and machinery above ` 10 lakh and up to ` 25 lakh, and micro (service) enterprises with investment in equipment above ` 4 lakh and up to ` 10 lakh.

The targets for Micro Enterprises within the Micro and Small Enterprises segment (MSE) will be computed with reference to the outstanding credit to MSE as on proceeding March 31st.

Advances to Weaker Sections 10 percent of ANBC or credit equivalent amount of Off-Balance Sheet Exposure,
whichever is higher.

Note:

(i) Banks should not deduct / net any amount like provisions, accrued interest, etc, from ANBC.

(ii) With effect from the fortnight beginning August 24, 2013, incremental FCNR (B) deposits as also NRE deposits with reference to base date of July 26, 2013, and having maturity of three years and above, mobilized by banks, were exempted from the maintenance of CRR / SLR. Advances granted in India against the incremental FCNR (B) / NRE deposits qualifying for exemption from CRR / SLR requirements, as detailed above, were also excluded from Adjusted Net Bank Credit for computation of priority sector targets.

(iii) On a review, it was decided that the exemption granted on incremental FCNR (B) /NRE deposits from maintenance of CRR/SLR will be withdrawn with effect from reporting fortnight beginning June 14, 2014, i.e., only the eligible amount of incremental FCNR (B) and NRE deposits of maturities of three years and above from the base date of July 26, 2013, and outstanding as on June 13, 2014, would qualify for CRR/SLR exemption till their maturities/ pre-mature withdrawals. Advances extended in India against the above mentioned incremental FCNR (B)/ NRE deposits, qualifying for exemption from CRR/ SLR requirements, will be eligible for exclusion from Adjusted Bank Credit, till their repayment, for computation of priority sector lending targets.

4. Description of the Categories under priority sector

4.1**. Agriculture (4.1.1. Direct Agriculture)**

4.1.1.1 Loans to individual farmers [including Self Help Groups (SHGs) or Joint Liability Groups (JLGs), i.e. groups of individual farmers, provided banks maintain disaggregated data on such loans] engaged in Agriculture and Allied Activities, viz., dairy, fishery, animal husbandry, poultry, bee-keeping and sericulture (up to cocoon stage).

4.1.1.2 Loans to others [such as corporates, partnership firms and institutions] for Agriculture and Allied Activities (dairy, fishery, piggery, poultry, bee-keeping, etc.) up to an aggregate limit of ` 2 crore per borrower for the following purposes:

(i) **Short-term loans for raising crops, i.e. for crop loans**.
This will include traditional/non-traditional plantations, horticulture and allied activities.

(ii) Medium & long-term loans for agriculture and allied activities (e.g. purchase of agricultural implements and machinery, loans for irrigation and other developmental activities undertaken in the farm and development loans for allied activities).

(iii) Loans for pre-harvest and post-harvest activities viz.spraying, weeding, harvesting, sorting, grading and transporting of their own farm produce.

(iv) Loans to farmers up to ` 50 lakh against pledge / hypothecation of agricultural produce (including warehouse receipts) for a period not exceeding 12 months, irrespective of whether the farmers were given crop loans for raising the produce or not.

(v) Loans to small and marginal farmers for purchase of land for agricultural purposes.

(vi) Loans to distressed farmers indebted to non-institutional lenders, against appropriate collateral.

(vii) Export credit for exporting their own farm produce.

4.1.2. Indirect agriculture

4.1.2.1. Loans to corporates, partnership firms and institutions engaged in Agriculture and Allied Activities [dairy, fishery, animal husbandry, poultry, bee-keeping and sericulture (up to cocoon stage)]

If the aggregate loan limit per borrower is more than ` 2 crore in respect of eligible advances under direct agriculture, the entire loan should be treated as indirect finance to agriculture

(i) Short-term loans for raising crops, i.e. for crop loans.

This will include traditional/non-traditional plantations, horticulture and allied activities.

(ii) Medium & long-term loans for agriculture and allied activities (e.g. purchase of agricultural implements and machinery, loans for irrigation and other developmental activities undertaken in the farm, and development loans for allied activities).

(iii) Loans for pre-harvest and post-harvest activities such as spraying, weeding, harvesting, grading and sorting

(iv) Loans up to ` 50 lakh against pledge / hypothecation of agricultural produce (including warehouse receipts) for a period not exceeding 12 months, irrespective of whether the farmers were given crop loans for raising the produce or not.

(v) Export credit to corporates, partnership firms and institutions for exporting their own farm produce.

(vi) Loans up to ` 5 crore to Producer Companies set up exclusively by only small and marginal farmers under Part IXA of Companies Act, 1956 for agricultural and allied activities.

4.1.2.2. Other indirect agriculture loans

(i) Loans up to ` 5 crore per borrower to dealers / sellers of fertilizers, pesticides, seeds, cattle feed, poultry feed, agricultural implements and other inputs.

(ii) Loans for setting up of Agriclinics and Agribusiness Centres.

(iii) Loans to Custom Service Units managed by individuals, institutions or organizations who maintain a fleet of tractors, bulldozers, well-boring equipment, threshers, combines, etc., and undertake farm work for farmers on contract basis.

(iv) Loans for construction and running of storage facilities (warehouse, market yards, godowns and silos), including cold storage units designed to store agriculture produce/products, irrespective of their location.

If the storage unit is a micro or small enterprise, such loans will be classified under loans to Micro and Small Enterprises sector.

4.2. Micro and small enterprises

The limits for investment in plant and machinery/equipment for manufacturing / service enterprise, as notified byMinistry of Micro Small and Medium Enterprises, vide, S.O.1642(E) dated September 29, 2006 are as under:- **Manufacturing sector**

Micro Enterprises - Investment in plant and machinery -Does not exceed ` 25 lakh

Small Enterprises Is more than 25 lakh but does not exceed ` 5 crore.

Service Sector

Micro Enterprises Investment in equipment Does not exceed ` 10 lakh

Small Enterprises Is more than 10 lakh but does not exceed ` 2 crore.

Bank loans to micro and small enterprises both manufacturing and service are eligible to be classified under prioritysector as per the following:

4.2.1. **Direct Finance** (4.2.1.1. Manufacturing Enterprises)

Loans to the Micro and Small enterprises engaged in the manufacture or production of goods to any industry specified in the first schedule to the Industries (Development and Regulation) Act, 1951 and the activities notified by the Government from time to time are eligible for classification under priority sector. Loans to MSEs engaged in manufacturing or production of goods under MSMED Act 2006 are eligible for classification under priority sector as direct finance to MSEs.

4.2.1.2. **Loans for food and agro processing**

Loans for food and agro processing will be classified under Micro and Small Enterprises, provided the units satisfy investment criteria prescribed for Micro and Small Enterprises, as provided in MSMED Act, 2006.

4.2.1.3 **Service Enterprises** Bank loans up to ` 5 crore per unit to Micro and Small Enterprises engaged in providing or rendering of services and defined in terms of investment in equipment under MSMED Act, 2006.

4.2.1.4. **Export credit** to MSE units (both manufacturing and services) for exporting of goods/services produced bythem.

4.2.1.5. **Khadi and Village Industries Sector** (KVI)

All loans sanctioned to units in the KVI sector, irrespective of their size of operations, location and amount of original investment in plant and machinery. Such loans will be eligible for classification under the sub-target of 60 percent prescribed for micro enterprises within the micro and small enterprises segment under priority sector.

4.2.2. Indirect Finance

(i) Loans to persons involved in assisting the decentralised sector in the supply of inputs to and marketing of outputs of artisans, village and cottage industries.

(ii) Loans to producers in the decentralised sector viz. artisans, village and cottage industries.

4.3. Education Loans to individuals for educational purposes including vocational courses up to ` 10 lakh for studies in India and ` 20 lakh for studies abroad. Loans granted to institutions will not be eligible to be classified as priority sector advances.

4.4. Micro Credit Provision of credit and other financial services and products of amounts not exceeding `50,000/- per borrower or the maximum permissible limit on unsecured advances whichever is lower.

4.5. Housing

(i) Loans up to ` 25 lakh irrespective of location, to individuals for purchase / construction of a dwelling unit per family, excluding loans sanctioned by banks to their own employees.

(ii) Loans given for repairs to the damaged dwelling units of families up to ` 2 lakh in rural and semi- urban areas and up to ` 5 lakh in urban and metropolitan areas.

(iii) Assistance given to any governmental agency for construction of dwelling units or for slum clearance and rehabilitation of slum dwellers subject to a ceiling of loan component of ` 5 lakh per dwelling unit.

(iv) Assistance given to a non-governmental agency approved by the NHB for the purpose of refinance for

construction / reconstruction of dwelling units or for slum clearance and rehabilitation of slum dwellers, subject to a ceiling of loan component of `10 lakh per dwelling unit.

(v) Investments made by UCBs in bonds issued by NHB / HUDCO on or after April 1, 2007 shall not be eligible for classification under priority sector lending.

4.6. Others

4.6.1. Loans, not exceeding ` 50,000/- per borrower provided directly by banks to individuals;

4.6.2. Loans to distressed persons [other than farmers-already included under III (1.1) (vi)] not exceeding ` 50,000/- per borrower to prepay their debt to non-institutional lenders.

4.6.3. Loans to SHGs / JLGs for agricultural and allied activities would be considered as priority sector advance. Further, other loans to SHGs / JLGs up to ` 50,000 would be considered as Micro Credit and hence would be treated as priority sector advances.

4.6.4. Loans sanctioned to State Sponsored Organisations for Scheduled Castes / Scheduled Tribes for the specific purpose of purchase and supply of inputs to and / or the marketing of the outputs of the beneficiaries of these organisations.

5. **Weaker Sections** Priority sector loans to the following borrowers will be considered under Weaker Sections category:-

(a) Small and marginal farmers;

(b) Artisans, village and cottage industries where individual credit limits do not exceed ` 50,000/-;

(c) Women; (d) Scheduled Castes and Scheduled Tribes; (e) Persons with disabilities;

(f) Education loans to persons having monthly income not exceeding `5000/-. (g) Loans to Self Help Groups; (h) Loans to distressed farmers indebted to non-institutional lenders; (i) Loans to distressed persons other than farmers not exceeding ` 50,000/- per borrower to prepay their debt to non-institutional lenders; (j) Persons from minority communities as may be notified by Government of India from time to time.

In States, where one of the minority communities notified is, in fact, in majority, item (j) will cover only other notified minorities. These States / Union Territories are Jammu & Kashmir, Punjab, Sikkim, Mizoram, Nagaland and Lakshadweep. UCBs should initiate steps to enhance / augment flow of credit under priority sector to artisans and craftsmen as also to vegetable vendors, cart pullers, cobblers, etc. belonging to minority communities. The minority communities notified in this regard are Sikhs, Muslims, Christians, Zoroastrians , Buddhists and Jains. Within the overall target for priority sector lending and the sub-target of 25 per cent for the weaker sections, sufficient care may be taken to ensure that the minority communities also receive an equitable portion of the credit.

Common guidelines for priority sector loans

Banks should comply with the following common guidelines for all categories of advances under the priority sector. Service charges No loan related and ad-hoc service charges/inspection charges should be levied on priority sector loans up to ` 25,000/-.

Receipt, Sanction/Rejection/Disbursement Register

A register/ electronic record should be maintained by the bank, wherein the date of receipt, sanction/rejection/disbursement with reasons thereof, etc., should be recorded. The register/electronic record should be made available to all inspecting agencies.

Issue of Acknowledgement of Loan Applications

Banks should provide acknowledgement for loan applications received under priority sector loans. Bank Boards should prescribe a time limit within which the bank communicates its decision in writing to the applicants.

Definitions Small and Marginal Farmers: Farmers with landholding of up to 1 hectare are considered as Marginal Farmers. Farmers with a landholding of more than 1 hectare but less than 2 hectares are considered as Small Farmers. For the purpose of priority sector loans 'small and marginal farmers' include landless agricultural labourers, tenant farmers, oral lessees and share-croppers, whose share of landholding is within above limits prescribed for "Small and Marginal Farmer.

BASEL NORMS

Basel is a city in Switzerland which is also the headquarters of Bureau of International Settlement (BIS).

BIS fosters co-operation among central banks with a common goal of financial stability and common standards of banking regulations.

The Bank for International Settlements (BIS) established on 17 May 1930,is the world's oldest international financial organization. There are two representative offices in the Hong Kong and in Mexico City. In total BIS has 60 member countries from all over the world and covers approx. 95% of the world GDP.

OBJECTIVE-

The set of agreement by the BCBS(BASEL COMMITTEE ON BANKING SUPERVISION), which mainly focuses on risks to banks and the financial system are called Basel accord. The purpose of the accord is to ensure that financial institutions have enough capital on account to meet obligations and absorb unexpected losses. India has accepted Basel accords for the banking system.

Up till now BASEL ACCORD has given us three BASEL NORMS which are BASEL 1,2 and 3 but before coming to that wehave to understand following terms-

- CAR/CRAR- Capital Adequacy Ratio/ Capital to Risk Weighted Asset Ratio
- RWA- Risk Weighted Assets

Formulae for CAR=Total Capital/RWA*100 Now here, Total Capital= Tier1+ Tier2 capital

Tier 1 - The Tier-I Capital is the core capital…….

For example - Paid up Capital , Statutory Reserves, Other disclosed free reserves, Capital Reserves which represent surplus arising out of the sale proceeds of the assets, other intangible assets are belongs from the category of Tier1 capital.

Tier 2 - Tier-II capital can be said to be subordinate capitals.

For example - Undisclosed reserves, Revaluation Reserves, General Provisions and loss reserves , Hybrid debt capital instruments such as bonds, Long term unsecured loans, Debt Capital Instruments etc are belongs from the category of Tier2 capital.

RISK WEIGHTED ASSETS -

RWA means assets with different risk profiles; it means that we all know that is much larger risk in personal loans in comparison to the housing loan, so with different types of loans the risk percentage on these loans also varies.

BASEL-1 In 1988,The Basel Committee on Banking Supervision (BCBS) introduced capital measurement system called Basel capital accord, also called as Basel 1. . It focused almost entirely on credit risk, It defined capital and structure of risk weights for banks.

The minimum capital requirement was fixed at 8% of risk weighted assets (RWA).India adopted Basel 1 guidelines in 1999.

BASEL-2

In 2004, Basel II guidelines were published by BCBS, which were considered to be the refined and reformed versionsof Basel I accord.

The guidelines were based on three parameters which are as follows-

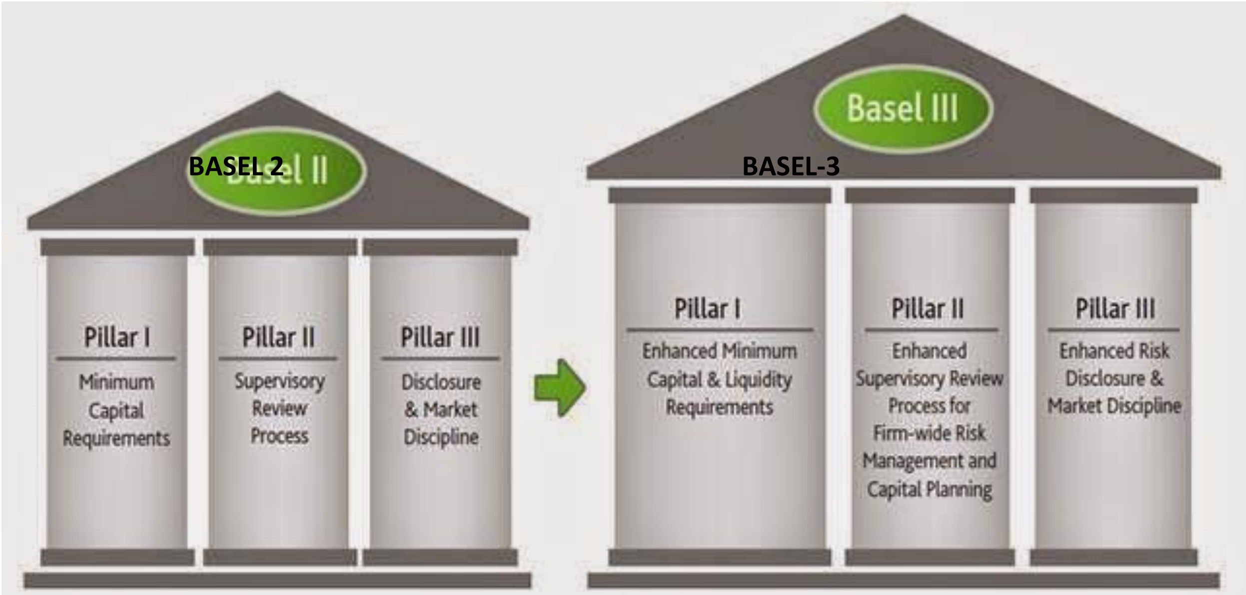
Banks should maintain a minimum capital adequacy requirement of 8% of risk assets.

Banks were needed to develop and use better risk management techniques in monitoring and managing all the threetypes of risks that is credit and increased disclosure requirements.

The three types of risk are- operational risk, market risk, capital risk.

Banks need to mandatory disclose their risk exposure, etc to the central bank. Basel II norms in India and overseas are yet to be fully implemented.

The three pillars of BASEL-2 can be understand from the following figure---



BASEL-3

In 2010, Basel III guidelines were released. These guidelines were introduced in response to the financial crisis of2008.

In 2008, Lehman Brothers collapsed in September 2008, the need for a fundamental strengthening of the Basel II framework had become apparent.

Basel III norms aim at making most banking activities such as their trading book activities more capital-intensive. The guidelines aim to promote a more resilient banking system by focusing on four vital banking parameters viz. capital, leverage, funding and liquidity.

Presently Indian banking system follows basel II norms.

The Reserve Bank of India has extended the timeline for full implementation of the Basel III capital regulations by a year to March 31, 2019.

IMPORTANT POINTS REGARDING THE IMPLEMENTATION OF BASEL-3

Government of India is scaling disinvesting their holdings in PSBs to 52 per cent.

Government will soon infuse Rs 6,990 crore in nine public sector banks including SBI, Bank of Baroda (BoB), Punjab National Bank (PNB) for enhancing their capital and meeting global risk norms.

This is the first tranche of capital infusion for which the government had allocated Rs 11,200 crore in the Budget for 2014-15.

The government has infused Rs 58,600 crore between 2011 to 2014 in the state-owned banks.

Finance Minister Arun Jaitley in the Budget speech had said that "to be in line with Basel-III norms there is a requirement to infuse Rs 2,40,000 crore as equity by 2018 in our banks. To meet this huge capital requirement we need to raise additional resources to fulfill this obligation.

****

MODULE III

(BASICS OF INSURANCE)

BASIC PRINCIPLES OF INSURANCE CONTRACT

Essentials of Insurance Contract A contract may be defined as an agreement between two or more parties to do or abstain from doing an act, and which is intended to create a legally binding relationship.

The contract of insurance must fulfill all the requirements of a valid contract as laid down under section 10 of the Indian Contract Act,1872.

The elements to be present for the contract to be enforceable are;

a) The intention to create a legal relation

b) Offer and acceptance

c) Consideration

d) Capacity to contract

e) Certainty of terms

f) Consensus ad idem(a genuine meeting of minds)

g) Legality of purpose

h) Possibility of performance

BASIC PRINCIPLES OF AN INSURANCE CONTRACT

The basic principles on which an insurance contract operates are discussed below.

PRINCIPLE OF UTMOST GOOD FAITH

Ordinary commercial contracts are governed by the doctrine of CAVEAT EMTOR i.e. let the buyer beware. In case of an insurance contract the subject matter of an insurance contract i.e. the product is an intangible one. Secondly, the circumstances surrounding the subject matter are known only to one party. Keeping these facts in mind the law imposes greater duty on the parties of an insurance contract. This is known as UBERRIMA FIDES (UTMOST GOOD FAITH).

DEFINITION OF UTMOST GOOD FAITH

A positive duty voluntarily to disclose, accurately and fully all material facts to the risk be proposed whether requested or not.

The duty of disclosure rests on both parties.

Material facts Very circumstance is material which would influence the judgement of a prudent insurer in fixing the premium or determining whether or not he will take the risk.

FACTS WHICH MUST BE DISCLOSED The categories of facts which must be disclosed are:

a) Facts which show that the particular risk represents a greater exposure than would be expected from its nature or class

b) External factors which make the risk greater than it would normally be expected

c) Previous losses or claims under the policies

d) Any declination or special terms imposed on previous proposals by other insurers

e) The existence of other non-indemnity policies such as life and accident

f) Full facts relating to the description of the subject matter of insurance.

FACTS WHICH NEED NOT BE DISCLOSED Circumstance which are material but it is not necessary to disclose them :

a) facts of law

b) facts of common knowledge

c) facts which lessen the risk

d) facts which could be reasonably discovered

e) facts which a survey would have revealed

f) facts covered by policy conditions

BREACH OF DUTY OF UTMOST GOOD FAITH

Breach of utmost good faith arises under one or both of the circumstances

a) Misrepresentation which may be either innocent or fraudulent

b) Non- disclosure which may be innocent or fraudulent

MISREPRESENTATION Regardless whether a misrepresentation is innocent or fraudulent it must:

a) Be substantially false

b) Be concerned with facts which are material to the acceptance or assessment of risk or material to the benefits obtained by the proposer

c) Have induced the recipient to enter into a contract if the right to avoid the contact is to be enforceable.

NON_ DISCLOSURE Non-disclosure arises and gives ground for avoidance by the second party where a fact

a) Is within the knowledge of the first party

b) Is not known to the second party

c) Is calculated, if disclosed to induce the second party to either not to enter the contract at all, or else only to enter on terms which he considers better.

PRINCIPLE OF INSURABLE INTEREST

The existence of insurable interest is an essential ingredient of any insurance contract. The subject matter of insurance can be any type of property or event that may result in a loss of a legal right or the creation of a legal liability. The subject matter of the contract is the name given to the financial interest which a person has in the subject matter of the insurance. Thus insurable interest may be defined as:

The legal right arising out of a financial relationship recognized under law, between the insured and the subject matter of insurance.

Essentials of Insurable Interest The features which are essential to insurance interest:

a) There must be some property, right, interest, life, limb or potential liability capable of being insured

b) It is this property ,right, interest, etc. which must be the subject matter of insurance;

c) The insured must stand in a relationship with the subject matter of insurance whereby he benefits from its safety, well being or freedom from liability and would be prejudiced its loss, damage or the existence of liability;

d) The relationship between the insured and the subject matter of the insurance must be recognized at the law.

The three main categories of application of insurable interest are:

Life – Each person has unlimited insurable interest in his or her own life. If the person is married then there is an automatic unlimited insurable interest in the life of the spouse.

Property – Insurable interest arises out of ownership where the insured is the owner of the subject matter of insurance. Any person who has a partial interest in some property is entitled to insure to the extent of the full value of the property. In case of mortgages the purchaser's interest arises from the ownership of the house or vehicle and the financial institution's interest is limited to the extent of the loan.

Liability –A person has insurable interest to the extent of any potential liability which may be incurred by way of damages and other costs. The limit of liability, chosen by the insured is the maximum figure that in his estimation is ever likely to be required to settle liability claims.

ASSIGMENT Assignment will occur when a policy is transferred from one person to another. Assignment of the policy is possible but in the case of the personal contract prior approval of the insurer is required as the new policy holder may not have the same insurable interest. In case of a life policy, the assured does not get any benefit till the policy matures. This is known as reversionary interest. Because of this life policies are freely assignable. An assignment may be an absolute assignment or a conditional assignment.

NOMINATION Nomination is the appointment of a person who will get the proceeds from the policy in the absence (death) of the policy holder. The policy holder may change the nominee at any time without consulting the previous nominee or the insurance company.

PRINCIPLE OF INDEMNITY Indemnity may be defined as the mechanism by which the insurance company provides financial compensation in an attempt to place the insured in the same pecuniary position after the loss as enjoyed immediately before the loss.

The principle of indemnity relies heavily on financial evaluation. The policy usually gives the insurer the right to choose which of the several methods is available to provide indemnity to the insured.

The various methods in which the insurance company can provide indemnity to the insured are:

1) Repair

2) Replacement

3) Reinstatement

4) Cash

COROLLARIES OF INDEMNITY (SUBROGATION) Subrogation is the right of one person, having indemnified another under a legal obligation to do so, to stand in the place of that other and avail himself of all the rights and remedies of that other whether enforceable or not.

An insurer is not entitled to recover more than he has paid out. Thus it is not merely the insured that must not make profit from the exercise; it is the insurer as well. Because life and personal accidents are not contracts of indemnity, therefore subrogation cannot apply to them.

CONTRIBUTION Contribution is the right of an insurer to call upon others similarly, but not necessarily equally liable to the same insured to share the cost of an indemnity payment. The prerequisites for the contribution clause to be applicable are:

1) Two or more policies of indemnity must exist

2) The policies must cover the common interest

3) The policies must cover the common peril which gives rise to the loss

4) The policies must cover a common subject matter

5) Each policy must be liable for loss.

PRINCIPLE OF CAUSA PROXIMA Proximate cause may be defined as:

The active efficient cause that sets in motion a train of events which bring about a result, without the intervention of any force started and working actively from anew and independent source.

Simplified it means the direct, the most dominant and most effective cause of which the loss the natural consequence. Thus the direct, dominant, operative and efficient cause must be regarded as proximate.

SINGLE CAUSE When the happening of the insured peril giving rise to the loss is single cause, then there is a valid claim under the policy as no excluded peril is involved.

CONCURRENT CAUSES

a) If there are concurrent causes and no excluded peril is involved and if one of the causes is an insured peril the other cause may be ignored.

b) If there are concurrent causes with an exclude peril involved , the claim will be outside the scope of the insurance policy

c) If the results of the operation of the insured peril can be easily separated from the effects of the excluded peril, then part of the claim will be paid.

UNBROKEN SEQUENCE (SUCCESIVE CAUSES) When several events occur in an unbroken sequence and no excluded peril is involved, the insurer is liable for all the losses resulting from the insured peril.

BROKEN SEQUENCE If a new and independent cause arises, so that the chain of sequence is broken, there will be liability for the insurance company if the new cause is an insured peril and no liability if the new cause is an excluded cause.

TYPES OF INSURANCE

Insurance business can be broadly divided into two categories:

a) Long term insurance – Which includes life, insured pension etc.

b) Short term insurance – This is mostly non-life insurance or general insurance.

LONG TERM INSURANCE (TYPES OF LIFE INSURANCE)

WHOLE LIFE ASSURANCE The sum assured is payable on the death of the assured whenever it occurs. Premiums are payable through the life or more normally until retirement of the assured at 60 or 65.

ENDOWMENT ASSURANCE This endowment assurance policy is taken for a certain number of years. The sum assured is payable in the event of death within the term of the policy or if the life assured survives the term period i.e. until the maturity date. In case of pure endowment assurance the sum assured is paid if the assured survives till the maturity date and the premium paid with or without interest is paid to dependents if the assured dies earlier.

ASSURANCE FOR CHILDREN In child's deferred assurance the policy is effected on the life of the parent with an option date, normally coinciding with the child's eighteenth or twenty-first birthday.

TERM ASSURANCE Term assurances are temporary contracts which provide basic death risk cover. It is the cheapest form of life assurance. On the expiry of the policy it has no value. The policy holder does not receive any benefit on survival at the end of the stipulated term.

LIFE ANNUITY Life annuity involves payment of certain agreed amount annually or more frequently on survival of the life annuitant. Premium may be payable in the form of single premium or annual premium prior to the date of commencement or vesting date. Annuity is a method by which a person can receive a yearly sum, an annuity, in return for payment to an insurance company of a sum of money. Different types of life annuities are:

1) Immediate annuity

2) Deferred annuity

3) Guaranteed annuity

4) Reversionary annuity

5) Joint and last survivor annuity

6) An annuity certain

NON-LIFE INSURANCE/GENERAL INSURANCE

The three broad classifications specified by the Insurance Act 1938 and adopted by the Indian insurance industry are:

1) Fire Insurance
2) Marine Insurance
3) Miscellaneous Insurance

FIRE INSURANCE The standard fire policy covers damage to the property caused by fire, lightning or explosives, where this explosion is brought about by gas or boilers not used for any industrial purpose. As this is limited in scope a number or extraneous perils can be added on the basic policy. In commercial insurances the cover is mostly is under three headings of buildings, machinery and plant and stock.

MARINE INSURANCE Marine policies relate to three areas of risk which are hull, cargo and freight. The risk against which these items are normally insured are collectively termed" perils of the sea."

Freight is used to refer to the sum paid for transporting goods or for the hire of a ship. Cargo is usually insured under a marine cargo policy from warehouse to warehouse basis and frequently covering all risks. Marine hull cover is for the damage to the ship due to marine perils.

MISCELLANEOUS INSURANCE Any general insurance business other than fire and marine insurance falls in the miscellaneous category. Some of the widely known insurances in this category are:

MOTOR INSURANCE The minimum requirement by law is to provide insurance in respect of legal liability to pay damages arising out of the injury caused to any person, unlimited in amount. There are four types of motor insurance policies:

An "Act only" policy which is the minimum requirement by law

The "third party only" policy which covers the insured liability in respect of third party injury, death or property damage.

A " third party fire and theft" policy which would additionally cover damage to the car and its contents from fire and theft

The comprehensive policy which provides the widest and most common form of cover.

THEFT INSURANCE This policy provides reimbursement to the insured in the event of loss of property damaged by theft. In case of burglary insurance policy occurrence of force and violence either in breaking in or out of the premises is required.

MONEY INSURANCE This provides reimbursement toe insured in the event of money being stolen either from his business premises, his own home or while it is being from or to the bank.

PERSONAL ACCIDENT This policy is to provide compensation in the event of an accident causing death or injury. Capital sums are paid in the event of death or certain specified injuries.

HEALTH INSURANCE This policy provides reimbursement of hospitalization, surgical and medical expenses.

ENGINEERING INSURANCE These policies are intended to provide compensation to the insured in the event of the machinery and plant insured against being damaged by some extraneous cause or its own breakdown. Briefly, engineering insurance covers:

a) Damage to or breakdown of specific items of plants and machinery
b) An inspection service of those items
c) Cost of repair of those items
d) Legal liability of injury caused by (a)
e) Legal liability for damage to property of others caused by (a)

LIABILITY INSURANCES Apart from liability arising under various branches of motor, fire, marine aviation and engineering there are general liability policies. Some of the general liability policies are:

Employers Liability/ Workmen's compensation Insurance

This policy covers all expenses when the employee is held legally liable to pay damages to an injured employee or the dependent of someone who is fatally injured.

Public liability Insurance

For individuals – Personal Liability & For business risks- Directors' and Officers' Liability

This policy provides compensation for defense costs as well as the amount of compensation for which a director or an officer may be liable to pay for his negligence in operating as a company.

Products liability Insurance

This policy covers liability arising out of defects in the good sold.

Professional Indemnity Insurance

This policy covers liability arising out of professional negligence or genuine error in judgement. **REINSURANCE** Reinsurance is the insurance of insurance. Reinsurance is defined as the practice whereby one party called the reinsurer in consideration of a premium paid to him agrees to indemnify another party called the reinsured for part or all of the liability assumed by the latter party under a policy or policies of insurance which it has issued. The insurer transferring the business is called the principal or ceding or original office and the insurer to whom the business is transferred is called the reinsurer or guaranteed office.

FUNCTIONS OF REINSURANCE

1) Risk transfer
2) Income smoothening
3) Surplus relief
4) Arbitrage
5) Catastrophe protection

METHODS OF REINSURANCE

TREATY: The treaty is an agreement in writing between the direct insurer and the reinsurer or a number of reinsurers, whereby the reinsurer will accept automatically without further negotiations: any cessions falling within the terms of the agreement. The facility is arranged in advance and negotiations are normally required only at the time of its renewal.

FACULTATIVE: This is the earliest form of reinsurance and is used when:

a) Treaty capacity has been filled

b) The risk is outside the terms of the treaty

c) For unusual risks

Each risk is reinsured separately and each party is completely free to decide whether to reinsure or not and whether to accept the reinsurance or not. This form of reinsurance is relatively expensive.

TYPES OF REINSURANCE

PROPOTIONAL REINSURANCE: Under these forms of reinsurance the amount retained and the amount cede will represent certain proportions of the cover accepted by the ceding office and the original policy premium will be shared in these proportions. The claim payment will also be shared in the same proportion irrespective of the size of the claim.

The forms of proportional insurance are:

SURPLUS: The reinsurer will accept any surplus risk over the retention of the ceding office. The treaty would specify an amount as the ceding office's maximum retention as also the scope of coverage and exclusion of certain types of risks. The ceding office has a free choice within the limits mentioned in the treaty of how much it will retain for its own amount.

QUOTA SHARE: The ceding office must reinsure such proportion of every risk as pre decided in the treaty. It cannot retain all of any risk, no matter how small. Quota share treaties are usually used where:

a) A company has not been long in a particular market

b) A company's surplus treaty claims experience has been poor

c) It is seen as a means of saving costs by way of earning high commission rates

NON- PROPORTIONAL REINSURANCE In these forms of cover the reinsurers do not share each loss in a fixed proportion and may not some losses at all. The ceding office will underwrite its retention as a form of first loss insurance i.e. it will bear all losses up to a certain figure, and the reinsurers will deal with the balance of any loss above this figure.

The principal forms of non-proportional covers are:

a) Excess of loss

b) Excess of loss ratio

EXCESS OF LOSS The reinsurer only becomes involved where a claim exceeds the amount of the loss retained by the direct office. When the ceding office's retention for any one loss is exceeded, the reinsurer step in and pay the balance up to a maximum limit .A direct insurer can have number of excess of loss treaties to cater to large losses.

EXCESS OF LOSS RATIO (STOP LOSS) This form of reinsurance is designed to prevent wide fluctuations of the net claims ratio of particular account over one financial year compared to another .As claims ratios vary from year to year, there would always be a margin between the average ratio and the start of the reinsurance layer. This reinsurance is intended to protect the company from an abnormal experience and not just the normal year to year fluctuations.

MARKETING OF INSURANCE PRODUCTS

Marketing means activities that are focused on the customer. These activities include:

1) Making the customer know about the availability of the goods and services on offer

2) Making it convenient for the customer to access the goods and services on offer

3) Making the customer feel that the cost for benefits derived on offer reasonable

4) Ensuring that the customers feel a great satisfaction while using the goods and services

MARKETING APPROACH TO LIFE INSURANCE Insurance is a personalized service-oriented industry. The marketing approach in relation to life insurance refers basically to four steps:

1) Research to determine customers' financial insecurity

2) Design new services or innovate old ones

3) Market services to the customer for whom they were researched and designed

4) Satisfy the customer's needs

MARKETING MIX IN INSURANCE Marketing of insurance products revolves round four Ps i.e. product, price, promotion and place

PRODUCT DESIGN Insurance is a peculiar product as it is an intangible one at present – a promise to perform in the future. Secondly, the product continues to exist for a long period of time and for making its service available, the insured person has to go on paying the purchase price throughout the term of the policy. Life insurance product designs have 3 broad attributes:

1) Kind of contingencies covered 2) Pattern of premium payment 3)Pattern of benefits received

PRICE Premium is the price which the person seeking the insurance pays to the insurers for purchasing the cover.

DISTRIBUTION AND PROMOTION

Distribution is concerned with the activities involved in transferring the products leading to the sale to the consumer. In case of insurance the marketing force comprises of agents and development officers.

Other intermediaries which assist in selling are brokers and insurance consultants. Another channel used for marketing is direct mailing.

AGENT An agent is person, who is employed to do any act for another/ or represents another in dealing with third person. In the insurance industry an agent is a person who is engaged by the insurer to procure business for him. A person can be an agent if:

a) He has passed12th standard, if he resides in a place with a population of 5000 or more

b) He has undergone a practical training of 100hrs. from an approved institution

c) The applicant has passed the pre recruitment examination.

d) The fees payable for the issue or renewal of license to act as an insurance agent is Rs.250.

Corporate Agents A corporate agent facilitates distribution of insurance products to the corporate. The corporate agent could be other than a person such as:

1) A company formed under Companies Act 1956

2) A banking company

3) Regional Rural banks

4) Co-operative societies/ Co-operative banks

5) Panchayat/Local authority

6) N.G.O. as approved by the IRDA

A composite corporate agent is one who holds the license to act as an insurance agent for general and life insurance.

FUNCTIONS OF AN AGENT

An insurance agent is required to solicit and procure new business in a manner consistent with the interests of the policy holders and the insurance company. To achieve this he must:

1) Meet prospects, analyze their financial needs and persuade them to buy a product

2) Arrange completion of all essential requirements for the underwriter

3) Remain in contact with the policy holder and ensure that the renewal premiums are paid on time.

4) Take care that nomination is made under the policy

5) Provide help to the claimants to complete necessary forms and comply with other requirements.

Third party administrator

In health insurance third party administrator has some vital importance.

This intermediary facilitate the access of policy holder to a network of hospitals and nursing home.

It will benefited to both the insured and insurer.

T.P.A maintain the data base of policy holders, & issue them identity cards with unique identification claim settlement.

They have facilitate 24 year toll free numbers which can be accessed any where from the country, & also having with full-time medical practitioner, who spontaneously take decision, on whether the ailment is covered under the policy or not.

It provides quality & quick service to insured on one hand & reducing administrative cost & time of insurer on the on the other.

T.P.A license is granted to companies registered under companies act 1956, having paid-up capital of 1 crore & foreign participation not exceeding 49%..

Tenure of licenses is 3 years.

The reimbursement for T.P.A's are on commission basis with mutual agreement, but subject to a maximum of 15% of premium amount.

T.P.As have to tie up with hospitals, which offer hospitalization services & each T.P.As may tie-up with any number of insurers & like wise each insurer can empanel any no. of T.P.As.

Procedure Records of mediclaim of an insurer are transferred to T.P.As who virtually issues identity card to the policy holder, which have to be shown before the hospital authorities to avail medical services.

On informing to TPA, the policy holder will directed to the hospital, where there is a tied-up.

However policy holders have the option to join any other hospital of his choice, but payment will be on re imbursement basis.

TPA issues an authorization letter to the hospital for treatment of policy holder, for which payment will be made by T.P.A.

For this he has to track the development of insured, & collect all the bills upto the point of discharge.

T.P.A pays the amount as per the bills to the hospital & spends all the necessary & relevant documents to the insurer for claim settlement.

Insurer reimburses the TPA

Roles of TPA Presenting the role of T.P.A is expanded to the following areas from medical services.

Documentation & issue of policies.

Legal services, claim settlements.

Record verification under adjustment policy.

Follow-up of recoveries from Reinsurance Company.
Inspection & assessment of risk prior to issue of policy.
Arbitration services.

Bancassurance

Introduction: - As per the investigation the opening of insurance industry to private sector participation in December1999 has led to the entry of 20 new players, with 12 in life Insurance Sector & 8 in the non-life insurance sector. Almost without exception these companies are seeking to utilize multiple distribution channels such as –
1) Traditional Agencies 2) Bancassurance 3) Brokers 4) Direct Marketing

Bancassurance is seen by many to be a significant or even the primary channel.

The banking & Insurance industry have charged rapidly in the changing and challenging economic environment through out the globe. In the competitive & open environment each & every one wants to do better than others. And they know that if they are not able to provide better service the won't survive in Industry. Insurance companies are also to be competitive by cutting cost & serving in the better way to customers. Now the time has come to choose and adopt appropriate distribution channel. The insurance Industry has indeed awakened to deregulated environment in which several private companies have partnered with multinational insurance Insurance companies. Despite a billion of population, India still has a low insurance percentage of 1.95 and it is in 51st position in world. Despite of the fact that India boosts a saving rate around 25%, less than 5% is spending on insurance. To streamline the saving in to insurance Bancassurance is the best channel to tackle four challenges facing the insurance industry,
* Product innovation * Distribution * Customer Service & * Investments

Definition: The Bancassurance is the distribution of insurance products through the bank's distribution channels. It is a phenomenon where in insurance products are offered through the distribution channels of the banking services along with a complete range of banking & investment products & services. In simple term we can say Bancassurance tries to exploit synergies between both the insurance companies & banks. In the simple term of insurance there are only two parties.
1) The Bank (2) The Insurer (3) The customer.

* Bancassurance in India: Bancassurance in India is a very new concept,. In our country the banking & insurance sectors are regulated by two different entries. They are: -
(a) Banking is fully governed by RBI (b) Insurance sector is by IRDA

And bank assurance being the combination of two sectors comes under the purview of both the regulators. Each of the regulators has given out detailed guidelines for banks getting into insurance sector.

Guidelines given by RBI:- The Reserve Bank of India has given certain guidelines for banks entering into the insurance sector. They are as follows: -

1. Any commercial bank will be allowed to undertake insurance business as the agent of insurance companies & this will be on fee basis with no-risk participation.

2. The second guideline given by the RBI is that the joint ventures will be allowed for financial strong banks wishing to undertake insurance business with risk participation.

3. The third guideline is for banks which are not eligible for this joint venture option, an investment option of

(1) up to 10% of the net worth of the bank or

(2) Rs. 50 crores. Whichever is lower is available.

The bank that wants to enter in participates in the Insurance industry they have to follow the above guidelines given by the Reserve Bank of India.

Guidelines given by IRDA: - The Insurance regulatory development & Authority has given certain guidelines for the Banc assurance they are as follows: -

1) Chief Insurance Executive: Each bank that sells insurance must have a chief Insurance Executive to **handle all the insurance matters & activities.**

2) **Mandatory Training:** All the people involved in selling the insurance should under-go mandatory training at an institute determined (authorized) by IRDA & pass the examination conducted by the authority.

3) **Corporate agents**: Commercial banks, including co-operative banks and RRBs may become corporate agents for one insurance company.

4) **Banks cannot become insurance brokers**.

Issues for regulation: Certain regulatory barriers have slowed the development of Bancassurance in India down. Which have only recently been cleared with the passage of the insurance (amendment) Act 2002. Prior it was clearly an impractical necessity and had held up the implementation of Bancassurance in the country. As the current legislation places the: -

(1) Training and examination requirements: upon the corporate insurance executive within the corporate agency, this barrier has effectively been removed.

Another regulatory change is published in recent publication of IRDA regulation relating to the Licensing of Corporate agents

(2) Specified person to satisfy the training & examination: According to new regulation of IRDA only the specific persons have to satisfy the training & examination requirement as insurance agent. Exception: A noticeable exception is that for the individuals who processing the Certified Associateship of Indian Institute of Banks **(CAIIB**) only 50 hours training rather than 100 hours. **Restrictive feature** : A restrictive feature of Bancassurance regulation is that:

(1) They appear to constrain the corporate agents to receive only commission, the profit sharing arrangements would seen to be ruled out.

2) The products sold through bank channels / networks can be highly profitable and so such agreement with banks is highly beneficial for banks only.

Important Bancassurance tie-up in India: There are certain tie-up between the Insurance company & banks are given at present days these tie-up are going well, running well & past in the field of Bancassurance.

(1) **LIC:** The insurance company LIC of India have tie up with the following bank for Bancassurance. They are: -

(A) Corporation Bank (B) Indian Overseas Bank (C) Centurion Bank (D) Sahara District Central Co-operative bank (E) Janta Urban Co-operative bank (F) Yeotmal Mahila Sahakari Bank (G) Vijaya

Bank & (H) Oriental Bank of Commerce

2) **SBI – Life – Insurance Co**: The SBI life Insurance Co Ltd is starting & Running its Insurance business with the help of S.B.I.

3) **Bajaj Allianz general Insurance Co. Ltd**: In the field of general Insurance the Bajaj Allianz General Insurance Co Ltd., has tie-up with Karur Vysya Bank & Lord Krishna Bank.

4) **Birla Sun life Insurance Co. Ltd**: The Birla Sun life Insurance Company has a tie-up with the following bank for the insurance purpose :-

(a) Bank of Rajasthan (b) Andhra Bank (c) Bank of Muscat (d) Development Credit Bank (e) Dutch Bank & (f) Catholic Syrian Bank

Inspite of above mentioned tie-up with banks. There are many tie-ups for the purpose of bancassurance. Like ICICI Prudential, United India Insurance Co-Ltd. & so on

* Issues to be keep in mind while tie-up: The followings are certain issues that we have to keep in mind while tie-up with bank for Bancassurance purpose

(1) Do not depend upon traditional Method: The tie-up needs to develop innovative products and services rather than depends upon the traditional tracks. The kind of products. The bank would be allowed to sell are another major issue. For example: - a complex unit-linked life insurance product is better sold through brokers & agents, while a standard term product or simple products like auto Insurance, home loan and accident Insurance cover can be handled by bank branches.

(2) Clarity on operational activities : There is need to be clarify on the operational activities of Bancassurance that :-

(a) Who will do branding?

(b) Will the Insurance Company prefer to place a person at the branch of the bank? Or

(c) Will the bank branch train and keep its own people?

(d) Who will pay remuneration of above-mentioned people bank or Insurance Company or both in some ratio?

(3) Required Good Training: Even though the banks are in personal contact with its client, a high degree of active marketing skill is required to sell the insurance products. These can be possible through proper training only.

SWOT Analysis of Bancassurance in India:

On order to implement the bancassurance model in our country a lot of steps we have to taken.

(A) Top professionals will have to be hired.

(B) We have to study the Indians nature regarding insurance.

(C) Study about lower middle as well as upper class of society & how much they are eager to adopt insurance.

(D) Favorable & easy policies for the people.

(E) High capital investment in infrastructure development particularly in Information Technology & Telecommunication is required

(F) Creation of research & development cell is very important & adaptive task.

(G) We have to study about the SWOP analysis of world in the field of bancassurance & we can take this study as base.

Advantages of Banassurance: Bancassurance is a tool, which is beneficial to bank, customer & Insurer at a time. There are certain benefits of bancassurance are given.

(1) From the banks point of view: -

(A) By selling the insurance product by their own channel the banker can increase their income.

(B) Banks have face-to-face contract with their customers. They can directly ask them to take a policy. And the banks need not to go any where for customers.

(C) The Bankers have extensive experience in marketing. They can easily attract customers & non-customers because the customer & non-customers also bank on banks.

(D) Banks are using different value added services life-E. Banking tele banking, direct mail & so on they can also use all the above-mentioned facility for Bankassurance purpose with customers & non-customers.

(II) From the Insurer Point of view:

(A) The Insurance Company can increase their business through the banking distribution channels because the banks have so many customers.

(B) By cutting cost Insurers can serve better to customers in terms lower premium rate and better risk coverage through product diversification.

(III) From the customers' point of view: Product innovation and distribution activities are directed towards the satisfaction of needs of the customer. Bancassurance model assists customers in terms of reduction price, diversified product quality in time and at their doorstep service by banks.

CONCLUSION:

The life Insurance Industry in India has been progressing at a rapid growth since opening up of the sector. The size of country, a diverse set of people combined with problems of connectivity in rural areas, makes insurance selling in India is a very difficult task. Life Insurance Companies require good distribution strength and tremendous man power to reach out such a huge customer base.

In the field of bancassurance banks will bring a customer database, leverage their name, recognition & reputation of both local and regional levels. If they are using personal contact with customers and non-customers then only they can success in the field of bancassurance. But the proper implementation of bancassurance is still facing so many hurdles because of poor manpower management, lack of call centers, no personal contact with customers, inadequate incentives to agents and unfullfilment of other essential requirements.

Finally we can say that the bancassurance would mostly depend on how well insurers and bankers understanding is with each other and how they are capturing the opportunity and how better service they are providing to their, customers. Let us you all pay more attention towards the policies and enjoy the service provide by banks and Insurance Companies by the mode of Bancassurance. And finally I am warm welcoming to all the professionals in this field.

MICRO INSURANCE

Micro Insurance is an insurance with low premiums and low caps/coverage. It refers to a financial arrangement to protect low income people against specific perils in exchange of regular premium payment proportionate to the likelihood and the cost of the risk involved. The informal sector workers are generally not insured by regular insurance providers. Micro insurance comes up with strategically different methods of protecting the poor to suit their needs. It creates a win-win situation. It reduces vulnerability of the poor to risk and the institutions benefit a broadened market base. The motivation of providing micro insurance is twofold: first aims at extending a social security web to the low income group who are generally not encompassed by the government schemes and secondly, the poor are incorporated as a profitable and sustainable client in the business model of the market oriented commercial business.

To create a conducive market environment for micro insurance the insurers play a very strong role. First of all the insurers have to assess the market demand for micro awareness. Spread of awareness would increase the demand for awareness for insurance. The poor must speak out the risk they are vulnerable to and need to be protected against. Secondly, the insurers should examine how the poor were coping with the risk and whether they are satisfied with the existing strategy. In the third case, if they have gone for insurance what is their current understanding and experience with particular emphasis on negative aspects. Insurance services can also to be extended as an alternative to savings. Micro insurance has been designed keeping in mind the rural sector and the social sector.

RURAL SECTOR Rural sector is defined as a place which as per the latest census has:

1) Population of not more than 5000
2) Density of population of not more than 400 per sq. km
3) At least 75% of the male working population is engaged in agriculture.

SOCIAL SECTOR Social sector includes unorganized sector, informal sector, economically vulnerable or backward classes and other categories of person in rural as well as urban areas.

Unorganized sector This includes self - employed workers such as agricultural laborers, bidi workers, tailors, fishermen, handicraft artisans etc.

Economically Vulnerable or Backward Class

These include people who live below the poverty line or just above the poverty line.

OBLIGATION OF THE INSURER Every insurer who begins to carry on the business of insurance after the commencement of IRDA will ensure that he undertakes the following obligations persons in the rural and social sector:

RURAL SECTOR:

For a life insurer (Of the total policies procured in that yea).

5% in the first financial year

7% in the second financial year

10% in the third financial year

12 % in the fourth financial year

15% in the fifth year

For a general insurer (Of the gross premium income written direct in that year)

2% in the first financial year

3% in the second financial year

5% thereafter

SOCIAL SECTOR

For all insurers

5000 lives in the first financial year

7500 lives in the second financial year

10,000 lives in the third financial year

15,000 lives in the fourth financial year

20,000 lives in the fifth financial year

DELIVERY MECHANISM One of the greatest challenges for micro insurance is the actual delivery to the clients. Methods and models for doing so vary depending on the organization, institution, and provider involved. In general there are four main methods for offering micro insurance which are as follows:

PARTNER AGENT MODEL - A partnership is formed between the micro insurance (partner as MFI) scheme and a n agent(insurance companies)and in some cases third party health care provider. The micro insurance scheme is responsible for the delivery and marketing of products to the clients, while the agent retains all responsibility for design and development. In this model, micro insurance schemes benefit from limited risk, but also are disadvantaged in their limited control.

FULL SERVICE MODEL The micro insurance scheme is in charge of everything both the design and delivery of products to the clients, working with external health care providers to provide the services. The model has the advantage of offering micro insurance schemes full control, yet the disadvantage of high risk.

PROVIDER DRIVEN MODEL The health care provider has its own scheme and like the full service model is responsible for all operations, design, delivery and service. The advantage is in terms of the amount of control retained and the disadvantage is the limitations on the products and services.

COMMUNITY- BASED/MUTUAL MODEL The policy holders or clients are in charge, managing and owning the operations, and working with external health care providers to offer services. This is advantageous for its ability to design and market products more easily and effectively, yet is disadvantaged by the small size and scope of operations

IRDA - Who We Are

We regulate the Indian insurance industry to protect the interests of the policyholders and work for the orderly growth of the industry.

Background

1991: Government of India begins the economic reforms programme and financial sector reforms

1993: Committee on Reforms in the Insurance Sector, headed by Mr. R. N. Malhotra, (Retired Governor, Reserve Bank of India) set up to recommend reforms.

1994: The Malhotra Committee recommends certain reforms having studied the sector and hearing out the stakeholders

Some recommended reforms

Private sector companies should be allowed to promote insurance companies

Foreign promoters should also be allowed

Government to vest its regulatory powers on an independent regulatory body answerable to Parliament

Birth of IRDA

Insurance Regulatory and Development Authority (IRDA) set up as autonomous body under the IRDA Act, 1999

MISSION STATEMENT OF THE AUTHORITY

To protect the interest of and secure fair treatment to policyholders;

To bring about speedy and orderly growth of the insurance industry (including annuity and superannuation payments), for the benefit of the common man, and to provide long term funds for accelerating growth of the economy;

To set, promote, monitor and enforce high standards of integrity, financial soundness, fair dealing and competence of those it regulates;

To ensure speedy settlement of genuine claims, to prevent insurance frauds and other malpractices and put in place effective grievance redressal machinery;

To promote fairness, transparency and orderly conduct in financial markets dealing with insurance and build a reliable management information system to enforce high standards of financial soundness amongst market players;

To take action where such standards are inadequate or ineffectively enforced;

To bring about optimum amount of self-regulations.

IRDA's Activities

Frames regulations for insurance industry in terms of Section 114A of the Insurance Act 1938

From the year 2000 has registered new insurance companies in accordance with regulations

Monitors insurance sector activities for healthy development of the industry and protection of policyholders' interests on in day-to-day working of the industry consistent with the requirements of prudential regulation.

What We Do (Functions and Duties of IRDA)

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

- Registering and regulating insurance companies
- Protecting policyholders' interests
- Licensing and establishing norms for insurance intermediaries

- Promoting professional organisations in insurance
- Regulating and overseeing premium rates and terms of non-life insurance covers
- Specifying financial reporting norms of insurance companies
- Regulating investment of policyholders' funds by insurance companies
- Ensuring the maintenance of solvency margin by insurance companies
- Ensuring insurance coverage in rural areas and of vulnerable sections of society

Organizational structure

As per the section 4 of IRDA Act' 1999, Insurance Regulatory and Development Authority (IRDA, which was constituted by an act of parliament) specify the composition of Authority.[8] IRDAI is a ten-member body consisting of:

A Chairman - T.S. Vijayan

Five whole-time members - R.K. Nair, M. Ram Prasad, S. Roy Chowdhary, D.D. Singh

Four part-time members - Anup Wadhawan, S.B. Mathur, Prof. V.K.Gupta, , Subodh Kr. Agarwal (**Note: All members are appointed by the Government of India.)**

The following are salient features of the IRDA Act (1999):

•The insurance sector in India has been thrown open to the private sector. The second and third schedules of the Act provide for removal of existing corporations (or companies) to carry out the business of life and general (non-life) insurance in India.

•An Indian insurance company is a company registered under the Companies Act, 1956, in which foreign equity does not exceed 26 per cent of the total equity shareholding, including the equity shareholding of NRIs, FIIs and OCBs.

•After commencement of an insurance company, the Indian promoters can hold more than 26 per cent of the total equity holding for a period of ten years, the balance shares being held by non-promoter Indian shareholders which will not include the equity of the foreign promoters, and the shareholding of NRIs, FIIs and OCBs.

•After the permissible period of ten years, excess equity above the prescribed level of 26 per cent will be disinvested as per a phased programme to be indicated by IRDA. The Central Government is empowered to extend the period of ten years in individual cases and also to provide for higher ceiling on share holding of Indian promoters in excess of which disinvestment will be required.

•On foreign promoters, the maximum of 26 per cent will always be operational. They will thus be unable to hold any equity beyond this ceiling at any stage.

•The Act gives statutory status for the Interim Insurance Regulatory Authority (IRA) set up by the Central Government through a Resolution passed in January 1996.

•All the powers presently exercised under the Insurance Act, 1938, by the Controller of Insurance (CoI) will be transferred to the IRDA.

•The IRDA Act also provides for the appointment of CoI by the Central Government when the Regulatory Authority is superseded.

•The minimum amount of paid-up equity capital is Rs.100 crore in case of life insurance as well as general insurance, and Rs.200 crore in the case of re-insurance.

•Solvency margin (excess of assets over liabilities) is fixed at not less than Rs.50 crore for life as well as general insurance; for reinsurance solvency margin is stipulated at not less than Rs.100 crore in each case.

•Insurance companies will deposit Rs.10 crore as security deposit before starting their business.

•In the non-life sector, IRDA would give preference to companies providing health insurance.

•Safeguards for policy holders' funds include specific provision prohibiting investment of policy holders' funds outside India and provision for investment of funds in accordance with policy directions of IRDA, including social and infrastructure investments.

•Every insurer shall provide life insurance or general insurance policies (including insurance for crops) to the persons residing in the rural sector, workers in the unorganized or informal sector or for economically vulnerable or backward classes of the society and other categories of persons as may be specified by regulations made by IRDA.

•Failure to fulfill the social obligations would attract a fine of Rs.25 lakh; in case the obligations are still not fulfilled, licence would be cancelled.

ULIP (Unit Linked Insurance Plan)

In Unit Linked Insurance Plans(ULIP), the investments made are subject to risks associated with the capital markets.

What is ULIP (Unit Linked Insurance Plan)?

ULIP is a life insurance product, which provides risk cover for the policy holder along with investment options to invest in any number of qualified investments such as stocks, bonds or mutual funds. As a single integrated plan, the investment part and the protection part can be managed according to specific needs and choices

Introduction

In Unit Linked Insurance Plans(ULIP), the investments made are subject to risks associated with the capital markets. This investment risk in investment portfolio is borne by the policy holder. Thus, you should make your investment choice after considering your risk appetite and needs.

Another factor that you need to consider is your future need for funds. HDFC Standard Life offers you a variety of unit-linked insurance products to suit your goals - be it for your retirement planning, for your health, for your child's education and marriage or for investment purposes.

Which Investors are Most Suited For.

Those who wish to closely track their investments

Unit linked plans allow policy takers to closely monitor their portfolios. They also offer the flexibility to switch your capital between funds with varying risk-return profiles.

Individuals with a medium to long term investment horizon

ULIPs (Unit Linked Plans) are ideal for individuals who are ready to stay invested for relatively long periods of time.

Those with varying risk profiles Across the seven funds offered, the equity component varies from zero to a maximum of 100 per cent. Thus there is a choice of funds available to all types of investors - from risk-averse investor to those investors who have strong risk appetite.

Investors across all life stages This plan category offers a variety of plans which can be opted for depending upon the life stage you are in and your needs and financial liabilities at that point in time.

How It is Structured. In a Unit Linked Plan (ULIP), the premiums you pay are invested in the funds chosen by you after deducting allocation charges and charges including those for managing funds, policy administration and for providing insurance cover are deducted from the funds by cancelling certain units.

The value of each unit of a fund is determined by dividing the total value of the fund's investments by the total number of units.

Advantages

Market linked returns : Unit linked plans give you an opportunity to earn market-linked returns as part of the premiums are invested in market linked funds which invest in different market instruments including debt instruments and equity in varying proportions.

Life protection, & Investment . : Unit linked plans offer the twin benefits of life insurance and savings at market-linked returns. Thus, you have the opportunity to invest your money to earn higher returns, while taking care of your protection needs. Investing in unit linked plans helps to inculcate a regular habit of saving and investing, which is important for building wealth over the long term.

Flexibility Unit Linked Plans offer you a wide range of flexible options such as The option to switch between investment funds to match your changing needs.

The facility to partially withdraw from your fund, subject to charges and conditions.

Single premium additions It enable the policy holder to invest additional sums of money (over and above the regular premium) as and when desired, subject to conditions.

Servicing A Unit Linked Plan

Single Premium The policy holder is required to pay the entire premium amount as a lump sum at the beginning of the policy term.

Regular Premium Payment (annually, semi-annually or monthly)

The policy holder has to pay the pre-determined premium amount periodically i.e. annually, semi annually or monthly, depending upon the premium payment term opted for.

Number of Premium Paying Years This depends on the term of the policy that you have chosen. In most cases, the policy term and the number of premium paying years (in case of regular premiums) are the same. However, some policies give the insured the option of choosing the number of premium paying years.

Charges The following charges are deducted from your policy towards the cost of benefits and administration services provided by HDFC Standard Life Insurance -

Administration charges : A fee is charged for administration of your policy every month. Administration charges are deducted by cancelling units proportionately from each of the funds you have chosen.

Fund management charges : These charges are towards meeting expenses related to managing the fund. This is charged as a percentage of the fund's value and is deducted before arriving at the net asset value of the fund.

Switch charges : You can switch between the funds available to suit your changing needs and goals. In a policy year, a fixed number of such switches are available free of cost. Subsequent to this, each switch would attract a certain charge. These charges are deducted by cancelling units proportionately from each of the funds you have chosen.

Surrender charges : These charges are levied for premature encashment of units. They are charged as a percentage of the fund value and depend on the policy year in which the policy has been surrendered.

Mortality Charges : Depending upon the age, and the amount of cover, these charges are levied towards providing a death cover to the insured.

Premium Allocation Charge This charge is deducted as a fixed percentage of the premium received, and is usually charged at a higher rate in the initial years of a policy. This charge varies depending upon whether the policy is a single premium plan or regular premium policy, the size of the premium, premium frequency and payment mode.

Partial Withdrawal Charges : Lump sum withdrawals are allowed from the fund after the lapse of three years of the policy term and subject to pre- specified conditions. However, such withdrawals attract charges, as mentioned in the respective policy brochures.

Switching Between Funds Insurance offers the flexibility to switch between funds available under a unit linked plan.

Insured may wish to switch between equity and debt funds, in times when there is market volatility or interest rate fluctuations. At times, changes in your financial standing, liabilities or risk profile may also require that you change your investments accordingly.

Making Withdrawals Insured may also make partial withdrawals from your funds after a certain specified period, subject to a partial withdrawal charge. The withdrawal amount should be at least the minimum prescribed withdrawal amount and the fund must not fall below the minimum fund value after the withdrawal.

Insured can make a full withdrawal of your policy before its maturity date. However, surrender charges will be applicable in this case.

****

Risk management

Prepared by: **Prof. B.P. Kar**

Risk management is the identification, assessment, and prioritization of risks followed by coordinated and economical application of resources to minimize, monitor, and control the probability and/or impact of unfortunate events or to maximize the realization of opportunities. Risk management's objective is to assure uncertainty does not deflect the endeavor from the business goals.

Introduction

In ideal risk management, a prioritization process is followed whereby the risks with the greatest loss (or impact) and the greatest probability of occurring are handled first, and risks with lower probability of occurrence and lower loss are handled in descending order. In practice the process of assessing overall risk can be difficult, and balancing resources used to mitigate between risks with a high probability of occurrence but lower loss versus a risk with high loss but lower probability of occurrence can often be mishandled.

Intangible risk management identifies a new type of a risk that has a 100% probability of occurring but is ignored by the organization due to a lack of identification ability. For example, when deficient knowledge is applied to a situation, a knowledge risk materializes. Relationship risk appears when ineffective collaboration occurs. Process-engagement risk may be an issue when ineffective operational procedures are applied. These risks directly reduce the productivity of knowledge workers, decrease cost-effectiveness, profitability, service, quality, reputation, brand value, and earnings quality. Intangible risk management allows risk management to create immediate value from the identification and reduction of risks that reduce productivity. Risk management also faces difficulties in allocating resources. This is the idea of opportunity cost. Resources spent on risk management could have been spent on more profitable activities. Again, ideal risk management minimizes spending (or manpower or other resources) and also minimizes the negative effects of risks.

According to the definition to the risk, the risk is the possibility that an event will occur and adversely affect the achievement of an objective. Therefore, risk itself has the uncertainty. Risk management, can help managers to have a good control for their risk. Every companies have different level for their internal control, which leads to the different result for the different companies. For example, the framework for ERM components includes Internal Environment, Objective Setting, Event Identification, Risk Assessment, Risk Response, Control Activities, Information and Communication, and Monitoring.

Principles of risk management

The International Organization for Standardization (ISO) identifies the following principles of risk management.

- Risk management should create value –
  (Resources expended to mitigate risk should be less than the consequence of inaction).
- Be an integral part of organizational processes.
- Be part of decision making process.
- Explicitly address uncertainty and assumptions.
- Be a systematic and structured process.
- Be based on the best available information.
- Be tailorable.
- Take human factors into account.
- Be transparent and inclusive.
- Be dynamic, iterative and responsive to change.
- Be capable of continual improvement and enhancement.
- Be continually or periodically re-assessed.

TYPES OF RISK

There are different types of risk. The most important types of risk include:

(i) Pure Risk (ii) Speculative Risk (iii) Particular Risk (iv) Fundamental Risk

(v) Static Risk (vi) Dynamic Risk.

PURE RISK

Pure risk is a situation that holds out only the possibility of loss or no loss or no loss. For example, if you buy a new textbook, you face the prospect of the book being stolen or not being stolen. The possible outcomes are loss or no loss. Also, if you leave your house in the morning and ride to school on your motorcycle you cannot be sure whether or not you will be involved in an accident, that is, you are running a risk. There is the uncertainty of loss. Your motorcycle may be damaged or you may damage another person's property or injured another person. If you are involved in any one of these situations, you will suffer loss. But if you come back home safely without any incident, then you will suffer no loss. So in pure risk, there is only the prospect of loss or no loss. There is no prospect of gain or profit under pure risk. You derive no gain from the fact that your house is not burnt down. If there is no fire incident, the status quo would be maintained, no gain no loss, or a break-even situation. Therefore, it is only the pure risks that are insurable.

Different Types of Pure Risk

Both the individual and business firms face different types of pure risks that pose great threat to their financial securities. The different types of pure risks that we face can be classified under any one of the followings:

(i) Personal risks(ii) Property risks (iii) Liability risks

Personal Risks Personal risks are those risks that directly affect an individual.

Personal risks detrimentally affect the income earning power of an individual. They involve the likelihood of sudden and complete loss of income, or financial assets sharp increase in expenses or gradual reduction of income or financial assets and steady rise in expenses. Personal risks can be classified into four main types:

(i) Risk of premature death (ii) Risk of old age (iii) Risk of sickness (iv) Risk of unemployment

Risk of Premature Death It is generally believed that the average life span of a human being is 70 years. Therefore, anybody who dies before attaining age 70 years could be regarded as having died prematurely. Premature deaths usually bring great financial and economic insecurity to defendants. In most cases, a family breadwinner who dies prematurely has children to educate, defendants to support, mortgage loan to pay. In addition, if the family bread-winner dies after a protracted illness, then the medical cost may still be there to settle and of course the burial expenses must have to be met. By the time all these costs are settled, the savings and financial assets of the family head may have been seriously depleted or possibly completely spentor sold off and still leaving a balance of debt to be settled. The death of family head could render some families destitute and sometimes protracted illness could so much drain the financial resources of some families and impoverish them even before the death of the family bread winner.

When a family breadwinner dies, the human-life value of the breadwinner would be lost forever. This loss is usually very considerable and creates grate financial and economic insecurity. What is a human life value? A human life value is the present value of the share of the family in the earnings of the family head.

Risk of Old Age The main risk of old age is the likelihood of not getting sufficient income to meet one's financialneeds in old age after retirement. In retirement, one would not be able to earn as much as before and because of this, retired people could be faced with serious financial and economic insecurity unless they have build up sufficient savings or acquired sufficient financial assets during their active working lives from which they could start to draw in old age.

Even some of the workers who make sufficient savings for old age would still have to contend with corrosive effect of inflation on such savings. High rate of inflation can cause great financial and economic distress to retired people as it may reduce their real incomes.

Risk of Poor Health Everybody is facing the risk of poor health. It is only when people are healthy, that they can meaningfully engage themselves in any productive activity and earn full economic income.

Poor health can bring serious financial and economic distress to an individual. For example, without good health, nobody can gainfully engage himself in any serious economic undertaking an maximized his economic income.

A sudden and unexpected illness or accident can result in high medical bills. Therefore, poor health will result in loss of earned income and high medical expenses. And unless the person has adequate personal accident and health insurance cover or has made adequate financial arrangements for income from other sources to meet these expenses, the person will be financially unsecured.

Risk of Unemployment The risk of unemployment is a great threat to all those who are working for other people or organizations in return for wages or salaries. The risk equally poses a great threat to all those who are still in school or undergoing courses of vocational training with the notion of taking up salaried job after the training period. Self-employed persons, whose services or products are no longer in demand, could also be faced with the problem of unemployment.

Unemployment is a situation where a person who is willing to work and is looking for work to do cannot find work to do. Unemployment always brings financial insecurity to people. This financial insecurity could come in many ways, among which are:

(i) The person would lose his or her earned income. When this happens, he will suffer some financial hardshipunless he has previously built up adequate savings on which he can now start to draw.

(ii) If the person fails to secure another employment within reasonable period of time, he may fully deplete hissavings and expose himself to financial insecurity.

(iii) If he secures a part-time job, the pay would obviously be smaller than the full-time pay and this entails areduction of earned income. This would also bring financial insecurity.

SPECULATIVE RISK Speculative risk is a situation that holds out the prospects of loss, gain, or no loss no gain (break-even situation). Speculative risks are very common in business undertakings. For example, if you establish a new business, you would make a profit if the business is successful and sustain loss if the business fails.

If you buy shares in a company you would make a gain if the price of the shares rises in the stock market, and you would sustain a loss if the price of the shares falls in the market. If the price of the shares remains unchanged, then, you would not make a profit or sustain a loss. You break-even. Gambling is a good example of speculative risk. Gambling involves deliberate creation of risk in the expectation of making a gain. There is also the possibility of sustaining a loss. A person betting $500 on the outcome of the next weekend English Premier League Match faces both the possibility of loss and of gain and of no loss, no gain. Most speculative risks one dynamic risk with the exception of gambling situations.

Other examples of speculative risk include taking parts in a football pool, exporting to a new market, betting on horse race or motor race.

Speculative risks are no subject of insurance, and then are therefore not normally insurable. They are voluntarily accepted because of their two-dimensional nature of gain or loss.

Pure Risk	**Speculative Risk**
1. Only the possibility of a loss	Both profit and loss are possible.
2. it is insurable	Risks are not normally insurable.
3. It is predicted	It is not generally

predictable. 4.Society will not benefit from a pure risk. Chances of social benefits. 5.Pure risk is not voluntarily accepted. It is accepted.

Liability Risks

Most people in the society face liability risk. The law imposes on us a duty of care to our neighbor and to ensure that we do not inflict bodily injury on them. If anyone breaches this duty of care, the law would punish him accordingly. For example, if you injure your neighbor or damage his property, the law would impose fines on you and you may have to pay heavy damages. Unfortunately, one can be found liable for breach of duty of care in different ways and the best security seems to be the purchase of liability insurance cover.

Liability Risks have two peculiarities:

(i**) Under liability risk,** the amount of loss that can be involved has no maximum upper limit. The wrong doer can be sued for any amount. **For example**, while riding on your bicycle valued $500, you negligently cause serious bodily injury to another person, that person can sue you for any amount of money, say $5000, N10,000 or even more depending on the nature of the injury.

In contrast, if the bicycle value at $500 is completely damaged by another person, the maximum amount of compensation (indemnity) that would be paid to you for the loss of the bicycle is just $500, that is, the actual value of the bicycle.

ii. Under liability risks your future income and assets may be attached to settle a high court fines if your present income and assets are inadequate to pay the judgment debt. When this happens, your financial and economic security would be greatly endangered.

Property Risks Property owners face the risk of having their property stolen, damaged or destroyed by various causes. A property may suffer direct loss, indirect loss, losses arising from extra expenses of maintaining the property or losses brought about by natural disasters.

Natural disasters such as flood, earthquake, storm, fire etc. can bring about enormous property losses as well astaking several human lives. The occurrence of any of these disasters can seriously undermine the financial security of the affected individual, particularly if such properties are not unsecured.

Direct Loss Direct loss is that loss which flows directly from the unsecured peril. For example, if you insure your house against fire, and the house is eventually destroyed by fire, then the physical damage to the property is known as direct loss.

Indirect Loss or Consequential Loss

Indirect or consequential loss is a loss that arises because of a prior occurrence of another loss. Indirect loss flows directly from an earlier loss suffered. The loss is the consequence of some other loss. It arises as an additional loss to the initial loss suffered. For example, if a factory that has a fire policy suffers a fire damage, some physical properties like building, machinery maybe destroyed. The loss of these properties flows directly from the insured peril (fire). The physical damage to the properties is known as direct fire loss.

But in addition to the physical damage to the properties, the firm may stop production for several months to allow for the rebuilding of the damaged of the premises and replacement of damaged equipment, during whichno profit would be earned.

This loss of profit is a consequential loss. It Is not directly brought about by fire but flows directly from the physical damage brought about by fire and hence indirectly from the fire incident. Other examples of consequential loss are the loss of the use of the building and the loss of a market.

Extra Expenses Alternative arrangement may have to be made to rend a temporary premises, pending the repairs or reinstatement of the damaged building, and it may also be necessary to rent, hire or lease a machine in order to keep production going so as not to disappoint customers and in the process lose market to competitors. The expenses incurred in securing the alternative premises, an renting, hiring or leasing a machine are referred to as extra expenses. These expenses may not have been insured if there has been no fire damage.

FUNDAMENTAL RISK

A fundamental risk is a risk which is non-discriminatory in its attack and effect. It is impersonal both in originand consequence. It is essentially, a group risk caused by such phenomena like bad economy, inflation unemployment, war, political instability, changing customs, flood, draught, earthquake, weather typhoon, tidal waves etc. They affect large proportion of the population and in some cases they can affect the whole population e.g. weather (harmattan for example). The losses that flow from fundamental risks are usually not caused by a particular individual and the impact of their effects falls generally on a wide range of people or on everybody. Fundamental risk arise from the nature of the society we live in or from some natural occurrences which are beyond the control of man.

The striking peculiarity of fundamental risk is that is incidence is nondiscriminatory and falls on everybody or most of the people. The responsibility of dealing with fundamental risk lies with the society rather than the individual. This is so because, fundamental risks are caused by conditions which are largely beyond human's control and are not the fault of anyone in particular. The best means of handling fundamental risk is the social insurance, as private insurance is very inappropriate. Although, it is on record that some fundamental risk, like earthquake, flood are being handle by private insurance.

PARTICULARS RISKS A particular risk is a risk that affects only an individual and not everybody in the community. The incidence of a particular risk falls on the particular individual affected. Particular risk has its origin in individual events and its impact is localized (felt locally). For example, if your textbook is stolen, the full impact of the loss of the book is felt by you alone and not by the entire members of the class. You bear the full incidence of the loss. The theft of the book therefore is a particular risk.

If your shoes are stolen, the incidence of the loss falls on you and not on any other person. Particular risks are the individual's own responsibility, and not that of that society or community as a whole. The best way to handle particular risk by the individual is the purchase of insurance cover.

STATIC RISK Static risks are risks that involve losses brought about by irregular action of nature or by dishonestmisdeeds and mistakes of man. Static losses are present in an economy that is not changing (static economy) and as such, static risks are associated with losses that would occur in an unchanging economy. For example, if all economic variables remain constant, some people with fraudulent tendencies would still go out steal, embezzle funds and abuse their positions. So some people would still suffer financial losses. These losses are brought about by causes other than changes in the economy. Such as perils of nature, and the dishonesty of other people.

Static losses involve destruction of assets or change in their possession as a result of dishonesty. Static losses seem to appear periodically and as a result of these they are generally predictable. Because of their relative predictability, static risks are more easily taken care of, by insurance cover then are dynamic risks. Example of static risk include theft, arson assassination and bad weather. Static risks are pure risks.

DYNAMIC RISK Dynamic risk is risks brought about by changes in the economy. Changes in price level, income, tastes of consumers, technology etc (which is examples of dynamic risk) can bring about financial losses to members of the economy. Generally dynamic risks are the result of adjustments to misallocation of resources. In the long run, dynamic risks are beneficial to the society. For example, technological change, which brings about a more efficient way of mass producing a higher quality of article at a cheaper price to consumers than was previously the case, has obviously benefited the society.

Dynamic risk normally affects a large number of individuals, but because they do not occur regularly, they are more difficult to predict than static risk.

DIFFERENCE BETWEEN DYNAMIC RISK AND STATIC RISK

Static Risk	Dynamic Risk
1. Most static risks are pure risks	1. They are mainly speculative risks.
2. They are easily predictable	2. They are not easily predictable
3. The society derives no benefit or gain	3 The society derives some benefits.
4. Static risks are present economyin a changing economy	4. Dynamic risks are only present in an unchanging
5. Static risks affect few individuals.	5. Dynamic risk affects larger people. .

Techniques of risk management

Comprehensive business risk management is a multi-stage process that will vary depending on the needs and requirements of each individual enterprise.

The first stage is to determine exactly what the risks facing your business are, in order to assess the likely and potential impact of each incident occurring.

Once this process has been completed, you can get down to evaluating the technique which will best suit your business and maximize your risk management moving forward.

Here are the four key potential risk treatments to consider.

Avoidance Obviously one of the easiest ways to mitigate risk is to put a stop to any activities that might put your business in jeopardy.

However it's important to remember that with nothing ventured comes nothing gained, and therefore this is often not a realistic option for many businesses.

Reduction The second risk management technique is reduction - essentially, taking the steps required to minimize the potential that an incident will occur.

Risk reduction strategies need to be weighed up in terms of their potential return on investment. If the cost of risk reduction outweighs the potential cost of an incident occurring, you will need to decide whether it is really worthwhile.

Transfer One of the best methods of risk management is transferring that risk to another party. An example of this would be purchasing comprehensive business insurance.

Risk transfer is a realistic approach to risk management as it accepts that sometimes incidents do occur, yet ensures that your business will be prepared to cope with the impact of that eventuality.

Acceptance Finally, risk acceptance involves 'taking it on the chin', so to speak, and weathering the impact of an event. This option is often chosen by those who consider the cost of risk transfer or reduction to be excessive or unnecessary.

Risk acceptance is a dangerous strategy as your business runs the risk of underestimating potential losses, and therefore will be particularly vulnerable in the event that an incident occurs.

The Risk Management Process

Risk Management is "the systematic application of management policies, procedures and practices to the tasks of establishing the context, identifying, analyzing, assessing, treating, monitoring and communicating". It is an iterative process that, with each cycle, can contribute progressively to organizational improvement by providing management with a greater insight into risks and their impact.

Risk management should be applied to all levels of the Universe, in both the strategic and operational contexts to specific projects, decisions and recognized risk areas. Risk is 'the chance of something happened that will have an impact on objectives.

A simple process Risk analysis is often best done in a group with each member of the group having a good understanding of the objectives being considered.

1. **Identify the Risks**: What might inhibit the ability to meet objectives? E.g. loss of a key team member; prolonged IT network outage; delayed provision of important information by another work unit/individual; failure to seize a commercial opportunity, etc. Consider also things that might enhance the ability to meet objectives e.g. a fund-raising commercial opportunity.

2. **Identify the Causes**: What might cause these things to occur e.g. the key team member might be disillusioned with their position, might be head hunted to go elsewhere; the person upon whom you are relying for information might be very busy, going on leave or notoriously slow in supplying such data; the supervisor required to approve the commercial undertaking might be risk averse and need extra convincing before taking the risk, etc.

3. **Identify the Controls**: Identify all the things (Controls) that you have in place that are aimed at reducing the Likelihood of your risks from happening in the first place and, if they do happen, what you have in place to reduce their impact (Consequence). Examples include: providing a friendly work environment for your team; multi-skilling across the team to reduce the reliance on one person; stressing the need for the required information to be supplied in a timely manner; sending a reminder before the deadline; and provide additional information to the supervisor before he/she asks for it, etc.

4. **Establish your Likelihood and Consequence Descriptors**: The likelihood descriptors are fairly generic however the consequence descriptors may depend upon the context of your analysis. I.e. if your analysis relates to your work unit, any financial loss or loss of a key staff member (for example) will have a greater impact on that work unit than it will have on the University as a whole so those descriptors used for the whole- of-University (strategic) context will generally not be appropriate for the Faculty, other work unit or the individual. The idea is analogous to how a loss of $300,000 would have less impact on the University than it would for an individual work unit. You will need to establish these parameters in consultation with the head of the work unit.

5. **Establish your Risk Rating Descriptors:** I.e. what is meant by a Low, Moderate, High or Extreme Risk needs tobe decided upon from the outset.

6.**Add Controls:** Generally, any risk rated High or Extreme should have additional controls applied to it to reduce the rating to an acceptable level. What the additional controls might be, whether they are affordable, what priority might be placed on them etc. is something for the group to determine in consultation with the Head of the work unit.

7. **Make a Decision**: Once the above process is complete, if there are still some risks that are rated as High or Extreme, a decision has to be made as to whether the activity will go ahead. Sometimes risks are higher than preferred but there may be nothing more that can be done to mitigate the risk i.e. they are out of the control of the work unit but the activity must still be carried out. In such situations, monitoring and regular review is essential.

8. **Monitor and Review:** Monitoring of all risks and regular review of the risk profile is a key part of effective risk management.

Limitation Prioritizing the risk management processes too highly could keep an organization from ever completing a project or even getting started. This is especially true if other work is suspended until the risk management process is considered complete. It is also important to keep in mind the distinction between risk and uncertainty. Risk can be measured by impacts x probability.

If risks are improperly assessed and prioritized, time can be wasted in dealing with risk of losses that are not
likely to occur. Spending too much time assessing and managing unlikely risks can divert resources that could beused more profitably. Unlikely events do occur but if the risk is unlikely enough to occur it may be better to simply retain the risk and deal with the result if the loss does in fact occur. Qualitative risk assessment is subjective and lacks consistency. The primary justification for a formal risk assessment process is legal and bureaucratic.

Risk communication Risk communication is a complex cross-disciplinary academic field related to core values of the targeted audiences. Problems for risk communicators involve how to reach the intended audience, to make the risk comprehensible and relatable to other risks, how to pay appropriate respect to the audience's values related to the risk, how to predict the audience's response to the communication, etc. A main goal of risk communication is to improve collective and individual decision making. Risk communication is somewhatrelated to crisis communication.

Insurance Underwriter

An insurance underwriter is a financial professional that evaluates the risks of insuring a particular person or asset and uses that information to set premium pricing for insurance policies. Insurance underwriters are employed by insurance companies to help price life insurance, health insurance, property/casualty insurance and homeowners insurance, among others.

Underwriters use computer programs and actuarial data to determine the likelihood and magnitude of a payoutover the life of the policy.

Higher-risk individuals and assets will have to pay more in premiums to receive the same level of protection asa (perceived) lower-risk person or asset

Each insurance company has its own set of underwriting guidelines to help the underwriter determine whether or not the company should accept the risk. The information used to evaluate the risk of an applicant for insurance will depend on the type of coverage involved. For example, in underwriting automobile coverage, an individual's driving record is critical. However, the type of automobile is actually far more critical. As part of the underwriting process for life or health insurance, medical underwriting may be used to examine the applicant's health status (other factors may be considered as well, such as age & occupation). The factors that insurers use to classify risks are generally objective, clearly related to the likely cost of providing coverage, practical to administer, consistent with applicable law, and designed to protect the long-term viability of the insurance program.

The underwriters may decline the risk or may provide a quotation in which the premiums have been loaded (including the amount needed to generate a profit, in addition to covering expense or in which various exclusions have been stipulated, which restrict the circumstances under which a claim would be paid. Depending on the type of insurance product (line of business), insurance companies use automated underwriting systems to encode these rules, and reduce the amount of manual work in processing quotations and policy issuance. This is especially the case for certain simpler life or personal lines (auto, homeowners) insurance. Some insurance companies, however, rely on agents to underwrite for them. This arrangement allows an insurer to operate in a market closer to its clients without having to establish a physical presence.

Two major categories of exclusion in insurance underwriting are moral hazard and correlated losses. With a moral hazard, the consequences of the customer's actions are insured, making the customer more likely to take costly actions. For example, bedbugs are typically excluded from homeowners' insurance to avoid paying for the consequence of recklessly bringing in a used mattress.. Insured events are generally those outside the control of the customer, for example (typical in life insurance) death by automobile accident, contrasted with death by suicide. Correlated losses are those that can affect a large number of customers at the same time, thus potentially bankrupting the insurance company. This is why typical homeowner's policies cover damage from fire or falling trees (usually affecting an India.

Factors to Consider When Underwriting a Life Insurance Policy

There are numerous factors that are considered when underwriting a life insurance policy. First, an underwriter will need to determine the probability of an applicant's life lasting as long – or even longer – than the "average" life expectancy for an individual of that particular age and gender.

In this estimate of life expectancy, if the applicant were to live as long or longer than anticipated based on the mortality table, then the funds that the insured has paid into the policy in the form of premiums will typically create enough of an investment for the insurer to take on the risk.

This means that even after the insured has passed away, the total amount of premium that he or she paid into the policy over time – combined with such funds' invested return – will be more than what the insurer will pay out in the form of a death benefit on the policy, resulting in a profit to the insurance company.

Given this, life insurance underwriters will also analyze factors that could possibly cause an applicant to pass away prior to their average life expectancy. Such factors could include a family history of certain health impairments such as cancer or stroke, as well as external factors such as working in a dangerous occupation.

The criteria that are analyzed by a life insurance underwriter will typically include the following:

•Applicant's current age

•Applicant's gender (It should be noted that some states offer uni-sex insurance rates)

•Height and weight of the applicant

•Health history (in addition to family health history of the applicant's parents and siblings)

•The purpose of the insurance policy (estate planning, business, or individual life insurance)

•Applicant's marital status

•Applicant's children, if any

•The amount of life insurance already in force by the applicant, as well as any additional life insurance that the applicant intends to purchase (applicants with more life insurance than needed are generally poor risks to the insurance company)

•Applicant’s occupation (hazardous occupations increase the risk to the insurance company)

•Applicant’s income (income can help determine the suitability of the amount of life insurance)

•Applicant’s smoking habits or tobacco use (smokers tend to have shorter lives, therefore making smokers a higher risk for the insurance company)

•Use of alcohol by the applicant (excessive drinkers are also high risks to the insurance company)

•Hobbies that the applicant engages in (some hobbies are considered hazardous, such as rock climbing or hang gliding and are considered high risks to the insurance company)

•Amount of foreign travel that the applicant engages in (some types of foreign travel are considered risky)

All of the above factors are considered to be elements of risk. Each is analyzed and factored in by the life insurance underwriters prior to an approval or rejection decision being made. Therefore, prior to applying for life insurance coverage, it is important to understand how underwriting works, as well as how different factors could affect the possibility of being accepted or rejected for coverage. Those applicants who have been rejected due to risk factors can still apply for high risk life insurance visual house), but not floods or earthquakes (which affect many houses at the same time

Life insurance claim settlement:

Selection of a proper life insurance policy is a basic requirement of individual's risk management policy. At the same time proper claim settlement is also an important part of the risk management system. A claim is the payment made by the insurer to the insured or claimant on the occurrence of the event specified in the contract, in return for the premiums paid for the insured. The easy and timely settlement of a valid claim is an important function of an insurance company.

A claim may arise in three basic conditions:

The Claimant should look about the following points before intimate a claim:

Whether the policy is in force?

Whether the policyholder has performed his part? - The policy status with regard to payment of premium, ag admission, outstanding loan & interest if any, legal restrictions if any.

Whether insured event has taken place?

What are the obligations assumed under the contract? Is there any assignment done under the policy?

Whether all the premiums are paid?

Claim Settlement Process: Death Claim

Step One: Intimation of Claim The claimant must submit the written intimation as soon as possible to enable the insurance company to initiate the claim processing. The claim intimation should consist of basic information such as policy number, name of the insured, date of death, cause of death, place of death, name of the claimant etc .Claim intimation form can be availed from nearest branch of the insurance company or/and by downloading it from the company website.

Step Two: Documentation The claimant will be required to provide the following documents along with claimant's statement:

I. Certificate of Death

II. Proof of age of the life assured (if not already given)

III. Deeds of assignment / reassignments (if required)

IV. Policy document

V. Any other document as per requirement of the insurer

For early death Claim, (If the claim has accrued within three years from the beginning of the policy) the following additional requirements may be called for:

I. Statement from the hospital if the deceased had been admitted to hospital

II. Certificate of medical attendant of the deceased giving details of his/her last illness

III. Certificate of cremation or burial to be given by a person of known character and responsibility present atthe cremation or burial of the body of the deceased

IV. Certificate by employer if the deceased was an employee

In special cases as per following the poof of death will be different from the standard specification.

In case of an air crash the certificate from the airline authorities would be necessary certifying that the assured was a passenger on the plane.

In case of ship accident a certified extract from the logbook of the ship is required.

In case of death from medical causes, the doctors' certificate and/or treatment records may be required.

If the life assured had a death due to accident, murder, suicide or unknown cause the police inquest report, panchanama, post mortem report, etc. would be required.

Step Three: Submission of required Documents for Claim Processing

For faster claim processing, it is essential that the claimant submits complete documentation as early as possible.

Step Four: Settlement of Claim

As per the regulation 8 of the IRDA (Policy holder's Interest) Regulations, 2002, the insurer is required to settle a claim within 30 days of receipt of all documents including clarification sought by the insurer. If the claim requires further investigation, the insurer has to complete its procedures within six months from receiving the written intimation of claim.

After receiving the required documents the company calculates the amount payable under the policy. For this purpose, a form is filled in which the particulars of the policy, bonus, nomination, assignment etc. should be entered by reference to the Policy Ledger Sheet. If a loan exists under the policy, then the section dealing with loan is contacted to give the details of outstanding loan and interest amount, which is deducted from the gross policy amount to calculate net payable claim amount. Generally all claim payments would be made through the electronic fund transfer.

Maturity & Survival Claims:

The payment by the insurer to the insured on the date of maturity is called maturity payment. The amount payable at the time of the maturity includes a sum assured and bonus/incentives, if any. The insurer sends in advance them intimation to the insured with a blank discharge form for filling various details in it. It is to be returned to the office along with Original Policy document, ID proof, Age proof if age is not already submitted, Assignment /reassignment, if any and Copy of claimant's Bank Passbook & Cancelled Cheque. Settlement procedure for maturity claim is simple after receipt of completed and stamped discharge form from the person entitled to the policy money along with policy documents, claim amount will be paid by account payee cheque.

Regarding maturity claims certain points are to be remembered:

If the life assured is reported to have died after the date of maturity but before the receipt is discharged, the claim is to be treated as the maturity claim and paid to the legal heirs. In this case death certificate and evidence of title is required.

Where the assured is known to be mentally deranged, a certificate from the court of law under the Indian Lunacy Act appointing a person to act as guardian to manage the properties of the lunatic should be called.

For Survival Benefit claim, Policy bond and discharge voucher is required.

Rider Claims: The life insurance policy can be attached with different riders like accidental rider, Critical illness Rider, Hospital cash Rider, waiver of Premium Rider etc. For different Riders different proceedings can be opted for claim settlement.

In some cases the claim may proceed as well as with the death Claim (Like Waiver of premium rider accidental
death Rider etc). But in some other cases different documents can be required for along with the duly filled Claim form & Policy Copy:

For Critical Illness Rider, necessary medical documents such as first investigation report, Doctor's prescription, Discharge Summery etc are required.

For Accidental disability rider, Attested copy of FIR, Doctor Certificate of disability, Photograph of the injured with reflecting disablement, Original Medical bills with prescriptions/ treatment papers etc are required.

For Hospital cash rider medical documents are required such as Medical & Investigation report, Prescriptions, Medical and Investigation Bills, Discharge Card etc.

Importance of Proper Documentation in Claim Processing: It is noted that in many cases the life insurance claim has been denied by the insurer because the claimant has failed to follow some step or not able to submit the necessary information to the company. So it is recommended that when you claim for life insurance, take proper steps and documentation so that you can collect your benefit without difficulty or delay.

MOTOR INSURASNCE CLAIMS (OWN DAMAGE)

On receipt of notice of loss, the policy records are checked to see that the policy is in force and that it covers the vehicle involved. The loss is entered in the Claims Register and a claim form is issued to the insured for completion and return.

The insured is required to submit a detailed estimate of repairs from any repairer of his choice. Generally, these repairs are acceptable to the insurers but they at times ask the insured to obtain repair estimate from another repairer, if they have reason to believe that the competence, moral hazard or business integrity of the repairer first chosen is not satisfactory.

Assessment Independent automobile surveyors with engineering background are assigned the task of assessing the cause and extent of loss. They are supplied with a copy of the policy, the claim form and the repairer's estimate. They inspect the damaged vehicle, discuss the cost of repair or replacement with the repairer, negotiate as per the indemnity, and submit their survey report.

In respect of minor damage claims, independent surveyors are not always appointed. The insurer's own officialsor their own automobile engineers inspect the vehicle and submit a report.

Settlement The survey report is examined and settlement is effected in accordance with the recommendations contained therein. The usual practice is to authorize the repairs directly with the repairer to whom a letter is issued to that effect. In this letter the repairers are also instructed to collect direct from the insured the amountof the excess, depreciation, salvage, etc.

If applicable to the claim, before delivering the repaired vehicle to him. The repairers are also instructed to keep aside the salvage of damaged parts, if there are any, for being collected by the salvage buyer nominated by the Insurers. Or else, if the repairers are willing to retain the salvage, its value, as indicated by the surveyor, is deducted from the claim bill.

On receipt of their final bill of repairs after completion of repairs and satisfaction note or voucher from the insured that the vehicle has been repaired to his satisfaction, the payment to the repairer is affected. . Sometimes, the repairer is paid directly by the insured in which case the latter is reimbursed on submission of a receipted bill from the repairers.

In either case, discharge voucher or receipt is obtained. The Claims Register and the policy and renewal records are marked that the claim is paid indicating the amount of claim and the amount of salvage, if any.

Claims Documents

Apart from claim form and Survey report the other documents required for processing the claim are:

(1) Driving License

(2) Registration Certificate Book

(3) Fitness Certificate (Commercial Vehicles)

(4) Permit (Commercial Vehicles)

(5) Police Report (Taxis, commercial Vehicle need F.I.R./ spot survey if loss is heavy or T.P. loss occurs)

(6) Final Bill from repairers

(7) Satisfaction Note from the insured

(8) Receipted bill from the repairer, if paid by insured.

(9) Discharge voucher (full and final payment)

Total Loss Claims Whenever a surveyor finds that a vehicle is either beyond repairs or the repairs are not an economic proposition, he negotiates with the insured to assess the loss on a Total Loss basis - for a reasonable sum representing the market value of the vehicle immediately prior to the loss.

If the market value is more than the insured value, the settlement will be brought about for the insured value. The Insured will be paid in cash and the Insurers will take over the salvage of the damaged vehicle which will thereafter be disposed of for their own benefit calling tenders through advertisements in newspapers.

However, before the actual payment is made to the Insured, the Insurer will collect from him the Registration and Taxation books, ignition keys and blank TO. and T.T.0. forms duly signed by the insured, so that the salvage is usually not encouraged, unless insured desires, so as to avoid the hastle of salvage disposal.

Theft Claims Total losses can also arise due to the theft of the vehicle and its remaining untraced by the police authorities till the end. These losses will have to be supported by a copy of the First Information Report (FIR) lodged with the Police authorities immediately after the theft has been detected. The police authorities register the complaint allotting it a number of the entry made in the Station Diary. This number which is usually known as SDE No. or C.R. No. (Crime Register) has to be quoted by the Insured in the claim intimation to the Insurers.

The police keep the investigations going until the vehicle is traced and delivered to its owner. However, if they do not succeed in recovering the vehicle after a period of, say 1-2 months, they file away the case certifying that the case is classified as true but undetected. This police certificate referred as "Non-Traceable" certificateis essential before a total loss following theft is settled by the insurers.

The documents to be submitted by the Insured will be the same as those described above. If the R.C. Book and Taxation Certificate are also stolen along with the vehicle. It will be necessary for the insured to obtain duplicate ones from the Registering Authority and thereafter deposit them with the Insurers.

The only additional documents will be addressed by the Insured to the R.T.O. informing about the loss of the vehicle due to theft and filing a Non User Form so that he is not made liable to pay the taxes.

Some insurers also obtain from the insured a special type of a Discharge on a stamped paper whereby the Insured undertakes to refund the claim amount if the vehicle is subsequently traced and delivered to him by the police. He also undertakes in the Discharge Form to pay any taxes which may be outstanding against the stolen vehicle. The ignition keys R.C.Books etc. are preserved by the Insurer in their custody so that these are made readily available if the vehicle is traced at a later date.

It is always prudent to inform the concerned Registering Authority by a Registered A/D letter that a total loss claim is being processed for payment in respect of the stolen vehicle and to request them not to transfer the ownership of the vehicle to anyone. This will prevent the thief from disposing of the stolen vehicle.

THIRD PARTY CLAIMS Section 165 of the Motor Vehicles Act 1988, empowers the State Governments to set up

Motor Accident Claims Tribunals (MACT) for adjudicating upon third party claims. When a tribunal has been set up for an area, no civil court has any jurisdiction to entertain any claim falling under the tribunal's jurisdiction. The aggrieved party has to move the tribunal within a period of six months from the date of accident. While making the award, the tribunal has to specify the amount payable by the insurer.

Procedure for third party claims On receipt of notice of claim from the insured, or the third party or from the MACT, the matter is entrusted to an advocate. Full information relating to the accident is obtained from the insured. The various documents are collected and these include-

– Driving License
– Police report
– Details of driver's prosecution, if any
– Death certificate, coroner's (PM report) report, if any (fatal claims).
– Medical Certificate (bodily injury claims)
– Details of age, income and number of dependents etc.

A written statement is then filed on the facts of the case with the MACT by the advocate. Eventually, if theaward is made by the MACT, the amount is paid to the third party against proper receipt.

Compromise Settlements Where there is clear liability under the policy, claims are negotiated with the third party to accept a compromise settlement, which if accepted by the third party, is registered with the MACT and its consent obtained. The cheque is deposited with MACT for disbursement to the aggrieved party.

Pending cases with the MACT where the liability under the policy is not in doubt are placed before the Lok Adalat or Lok Nyayalaya, for a voluntary and amicable settlement between the parties. A copy of decision in the prescribed memo and the cheque is deposited with MACT. Lok Adalat sessions are organized regularly by the insurance companies in liaison with the Legal Aid Board of each State and MACT to effect amicablesettlement of third party claims.

No Fault Liability These claims can be made by depositing the appropriate amount with the MACT afterobtaining death certificate, medical certificate and police report.

Procedure for Claim in Marine Insurance

Notice to Insurer Intimating insurance company about the loss or damage of goods is the first step to be taken by the insured under claim of Marine Insurance. In the event of loss or damage to the goods, insured or his agent has to give immediate notice to the insurance company**.**

Reasonable Care In a marine Insurance, it is a condition of the policy that the insured and his agents should act as if the goods are uninsured and should take all such measures and actions as may be reasonable and necessary to minimize the loss or damage. They must also ensure that all the rights against carriers, baileys or third parties are protected. So Reasonable care is one of the measures to be taken in to consideration under the procedures of claiming Marine Insurance against loss or damage of export import goods of international trade.

Survey and Claim Survey and claim is the next step to be followed under procedures and formalities to claim Marine Insurance under export and import goods. In a Marine Insurance, at the time of taking delivery, if any package shows signs of outward damage, insured or his agents must call for a detailed survey by the ship surveyors and lodge the monetary claim with the shipping company for the loss or damage to the packages. A certified marine surveyor can be appointed at the location where damaged cargo is available.

Outward Condition When the outward condition of the packages is apparent, the insured takes delivery unsuspectingly. After reaching warehouse, one opening the packages, they find damages to goods. In such an event, the insured and or agent should immediately inform the insurance company and call for the ship surveyor for detailed survey. They should not make any delivery of goods. They should not disturb the packing materials or the contents in packages. This is important in claiming Marine Insurance under export and import trade.

Missing Packages In case any package is found missing, the insured must lodge the monetary claim with the

insurance company and its baileys (shipping company) and obtain a proper acknowledgement from them. Thisis one of the formalities to claim Insurance under import export of international trade.

Time Limit In Marine Insurance, the time limit for filing suit against the shipping companies is one year fromthe date of discharge of goods, which may change as per the rules and regulations of insurer.

Documents Required The following documents are to be submitted by the insured to enable the insurance company to settle the claims expeditiously :

1. Original insurance Policy or Certificate.
2. Copy of Billing Lading.
3. Survey report / Missing certificate.
4. Original Invoice and Packing List together with shipping specification or weight notes.
5. Copies of Correspondence exchanged with the carriers or bailees.
6. Claim Bill.

Precautions While procuring insurance, exporter should observe the following precautions in claiming Insurance under export import goods:

(i) Amount of insurance is 110% of C.I.F value of goods. 10% covers anticipated profits. In other words, exporteris allowed to take a policy to cover profits up to a maximum amount of 10% of CIF value.

(ii) Insurance documents is not later than the date of shipment.

(iii) Amount insured must be in the same currency invoice to take care of the exchange fluctuations.

(iv) Insurance document is issued by the insurance company or its agents or underwriters. The document issuedby the brokers is not a good document.

****