LIC Asst. Main 2019

Insurance & Financial Awareness

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Insurance Capsule for LIC Assistant Main Exam 2019

Dear readers,

This Insurance Capsule is complete Information of important terms and plan & policies. The docket is important and relevant for Insurance exams like –LIC Assistant Main Exam 2019.

Insurance

Insurance is defined as a contract between two parties whereby one party called insurer undertakes in exchange for a fixed sum called premium to pay the other party called insured a fixed amount of money after happening of a certain event.

According to the Indian Contract Act 1872, "A Contract may be defined as an agreement between two or more parties to do or to abstain from doing an act, with an intention to create a legally binding relationship."

Benefits of Insurance –

- ✓ It safeguards your money.
- ✓ It ensures growth of money.

Life insurance policies are broadly categorized into 2 types –

- ✓ Traditional Plans and
- ✓ Unit Linked Insurance Plans (ULIPs).

The seven principles of insurance are :-

1. Principle of Uberrimae fidei (Utmost Good Faith)
2. Principle of Insurable Interest
3. Principle of Indemnity
4. Principle of Contribution
5. Principle of Subrogation
6. Principle of Loss Minimization
7. Principle of Causa Proxima (Nearest Cause)

The FDI policy, at present, allows **49 per cent** foreign investment in the insurance sector

IRDAI

- The Insurance Regulatory and Development Authority (IRDA) was constituted as an autonomous body to regulate and develop the insurance industry in **1999**, with the recommendations of the **R.N. Malhotra Committee** (former Reserve Bank of India Governor).
- Insurance Regulatory and Development Authority (IRDA) set up as autonomous body under the IRDA Act, **1999**.
- The IRDA was incorporated as a statutory body in April 2000.
- IRDAI Chairman **- Subhash Chandra Khuntia**
- IRDAI Head office **- Hyderabad, Telangana**.
- **The key objectives of the IRDAI** include promotion of competition so as to enhance customer satisfaction through increased consumer choice and lower premiums, while ensuring the financial security of the insurance market.
- Tag line of IRDAI is **– "Promoting Insurance. Protecting Insured".**

- **'Bima Bemisaal'** is the brand name for IRDAI's insurance awareness campaign.

Some Function of IRDAI – Section 14 of the IRDA Act, 1999 lays down the duties, powers and functions of IRDA.

- IRDAI provides a certificate of registration to a life insurance company.
- IRDAI frames regulations on protection of policyholders' interests.
- It offers policyholders the right to voice their complaints against insurers or insurance companies.
- It specifies the code of conduct for surveyors and loss assessors;
- It promotes efficiency in the conduct of insurance businesses;
- It regulates the investment of funds by insurance companies;

Some list of committees constituted by IRDAI -

- **R.N Malhotra Committee -** On the recommendation of Malhotra Committee, the insurance sector has been privatized in India.
- **Amitabh Chaudhry committee** - to review life insurance product regulations.
- **Suresh Mathur committee -** to review norms related to Insurance Marketing Firms (IMF) with an aim to increase insurance penetration in the country.
- **Dilip C Chakraborty committee –** on Risk Based Capital (RBC) Approach and Market Consistent Valuation of Liabilities (MCVL) on Indian Insurance Business.
- **P J Joseph committee** - to examine the motor third party insurance pricing aspects and make recommendations on premium rates for 2019-20.
- **Randip Singh Jagpal committee** - Regulatory Sandbox in insurance sector in India.
- **Pravin Kutumbe committee -** Irdai set up a panel to identity domestically systemically important insurers (SII).

History of Insurance in India

Life Insurance in its modern form came to India from England in the year 1818.

- **In 1818, Oriental Life Insurance Company** started by Europeans in Calcutta was the first life insurance company on Indian Soil. This Company however failed in 1834.
- In **1829**, the **Madras Equitable** had begun transacting life insurance business in the Madras Presidency.
- In 1850, the Triton Insurance Company Ltd., the first general (non-life) insurance company established in Calcutta by the British.
- In **1870**, Bombay Mutual Life Assurance is the **first Indian life insurance** company.
- In **1874**, Oriental Life Insurance was established and became a leading Indian Company.
- In **1896**, Bharat Insurance Company was established which was inspired by nationalism.
- In **1897,** Empire of India were started in the Bombay Residency.
- In the year **1912**, the Life Insurance Companies Act, and the Provident Fund Act were passed.
- In **1928**: The Indian Insurance Companies Act enacted to enable the government to collect statistical information about both life and non-life insurance businesses.

LIC

- Life Insurance Corporation India is a Government owned insurance group and investment company.
- LIC was created on 1st September **1956** with the merger of more than 245 insurance companies and provident societies.
- It was formed under an act of the parliament viz. LIC Act, 1956 with an initial capital of Rs. 5 crores from the Government of India.
- It is the largest life insurance company in India. The headquarters of LIC is in **Mumbai**, **Maharashtra.**
- It comprises of 8 zonal offices which are located in: Mumbai, New Delhi, Kolkata, Chennai, Bhopal, Kanpur, Hyderabad and Patna.
- LIC Current Chairman **– M.R. Kumar**
- The motto of the LIC is "**Yogakshemam Vahamyaham"** which means **-** your welfare is our responsibility.
- The tag Line of LIC is – **"Zindagi Ke Sath Bhi, Zindagi Ke Bad Bhi".**
- Satellite Sampark' offices are associated with Life Insurance Corporation (LIC). The aim of these offices is to provide easy access to services to its policyholders. The satellite offices are smaller, leaner and closer to the customer.

LIC acquire IDBI Bank

- On January 21, 2019, LIC completed the acquisition of 51% controlling stake in IDBI bank making it the majority shareholder of the bank.

General Insurance Corporation of India (GIC Re)

- The entire general insurance business in India was nationalised by General Insurance Business (Nationalisation) Act, **1972** (GIBNA).
- It was incorporated on 22 November 1972 under the Companies Act, 1956 as a private company limited by shares.
- As soon as GIC was formed, GOI transferred all the shares it held of the general insurance companies to GIC.
- Simultaneously, the nationalised undertakings were transferred to Indian insurance companies.

After a process of mergers among Indian insurance companies, four companies were left as fully owned subsidiary companies of GIC -

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

Year 2000

- The next landmark happened on 19th April 2000, when the Insurance Regulatory and Development Authority Act, 1999 (IRDAA) came into force.
- This Act also introduced amendment to GIBNA and the Insurance Act, 1938. An amendment to GIBNA removed the exclusive privilege of GIC and its subsidiaries carrying on general insurance in India.
- In December, 2000, the subsidiaries of the General Insurance Corporation of India were restructured as independent companies and at the same time GIC was converted into a national re-insurer.
- Parliament passed a bill de-linking the four subsidiaries from GIC in July, 2002.

- With the General Insurance Business (Nationalisation) Amendment Act 2002 (40 of 2002) coming into force from March 21, 2003; GIC ceased to be a holding company of its subsidiaries.
- The ownership of the four erstwhile subsidiary companies and also of the General Insurance Corporation of India was vested with Government of India.
- As a result of these reforms, GIC became the sole Re-Insurer in India, and is **now called GIC Re.**
- GIC Re Chairman & Managing Director **- Alice Vaidyan.**
- Head Office – **Mumbai**, **Maharashtra**.
- Tag line of GIC Re **– "To be a leading global reinsurance and risk solution provider".**

National Insurance Company Limited (NICL)

National Insurance Company Limited was incorporated on 6 December 1906 and was nationalized in **1972.**

- NICL present Chairman & Managing Director **- Tajinder Mukherjee**
- Head office **- Kolkata, West Bengal.**
- Tag line of NICL is **- *"Trusted Since 1906*"*.***

New India Assurance Co. Ltd (NIACL)

- It was founded by Sir Dorabji Tata in **1919** and was nationalized in **1973**.
- NIACL present Chairman & Managing Director **- Atul Sahai**
- Head office **- Mumbai, Maharashtra.**
- Tag line of NIACL is **- 'India's premier general insurance company'**.

Oriental Insurance Company Ltd (OICL)

- It was incorporated at Bombay on 12th September 1947.
- OICL present Chairman & Managing Director **- A. V. Girija Kumar.**
- Head office – **New Delhi.**
- Tag line of OICL is **– 'Sabki Suraksha Hamare Paas'**.

United India Insurance Company Limited (UIICL)

- It was incorporated on 18 February 1938 and was nationalized in 1972.
- UIICL Chairman & Managing Director **- Girish Radhakrishnan**
- Head Office - Chennai, Tamil Nadu.
- Tag line of UIICL is – **'Rest Assured with Us'**.

Paid up Capital requirement for New Insurance Company in India

- Any new life insurance company or non-life insurance company will not be registered unless the company has a paid-up equity capital of a minimum **Rs. 100 crores**.
- In the case of a re-insurance company the minimum paid-up equity capital will have to be Rs. **200 crores** (Sec. 6 of the Insurance Act, 1938).
- In the case of Health Insurance Business paid-up equity capital will have to be Rs. **100 crores.**

Insurance Ombudsman

- The Insurance Ombudsman scheme was created by the Government of India for individual policyholders to have their complaints settled out of the courts system in a cost-effective, efficient and impartial way.
- There are at present 17 Insurance Ombudsman in - in Ahmedabad, Bengaluru, Bhopal, Bhubaneswar, Chandigarh, Chennai, Delhi, Guwahati, Hyderabad, Jaipur, Kochi, Kolkata, Lucknow, Mumbai, Pune , Patna and Noida.

Insurance Ombudsmen are appointed by the Governing Body and are empowered to entertain complaints on the following aspects in respect of personal line insurances:

- Any partial or total repudiation of claims by an insurer.
- Any dispute in regard to premium paid or payable in terms of the policy.
- Any dispute on the legal construction of the policies in so far as such disputes relate to claims.
- Delay in settlement of claims.
- Non-issue of any insurance document to customers after receipt of premium.

You can approach the Ombudsman with complaint if:

- You have first approached your insurance company with the complaint and They have rejected it, Not resolved it to your satisfaction or Not responded to it at all for 30 days.
- Your complaint pertains to any policy you have taken in your capacity as an individual.

Value of Claim –

- The value of the claim including expenses claimed is not above **Rs 30 lakhs**.
- No fees / charges are required to be paid.
- Time limit for Compliance of Award by Insurers - The Insurer shall comply with the Award within 30 days from the date of receipt of the Award and intimate of its compliance to the Insurance Ombudsman.

Note:

- The **Executive Council of Insurers**, previously known as Governing Body of Insurance Council (GBIC) has been established under the **Insurance Ombudsman Rules, 2017**, to set-up and facilitate the Institution of Insurance Ombudsman in India.

Act related to the Insurance sector -

- **Insurance Act, 1938 -** The **Insurance Act, 1938** is a law originally passed in 1938 in British India to regulate the insurance sector.
- Under section **64C** of the **Indian Insurance Act 1938**, the General Insurance Council was established. The General Insurance Council is an important link between the Insurance Regulatory and Development Authority of India and the non-Life insurance industry.
- **Section 35 of the Insurance Act, 1938** does not allow a merger of an insurance firm with a non—insurance firm. The provision says that an entity not in the business of insurance, cannot be merged with an insurance entity.
- **Life Insurance Act, 1938** was the first legislation to control the insurance sector in India. The Act controlled both life and non-life insurance.
- **Life Insurance Companies Act, 1912** discriminated between foreign and Indian insurance companies.

IndiaFirst Life Insurance Company

- IndiaFirst Life Insurance Company is a life insurance company in India.
- It started as a joint venture between two of India's public sector banks – Bank of Baroda and Andhra Bank, and UK's financial and investment company Legal & General. It was incorporated in November, 2009.
- It has its headquarters in Mumbai.

Insurance Scheme by Govt. of India

1. Ayushman Bharat health insurance

- Prime Minister Narendra Modi, in his Independence Day speech of 2018, announced the launch of the Ayushman Bharat-National Health Protection Scheme (AB-NHPS).
- On September 23, 2018, the Prime Minister Narendra Modi launched Ayushman Bharat, world's largest government-funded healthcare scheme in Jharkhand's capital Ranchi.
- The Centre's flagship scheme has been renamed as **PM Jan Arogya Yojana (PMJAY).**
- The scheme become operational from September 25 on the birth anniversary of Pandit Deendayal Upadhyay.
- It will subsume the existing Rashtriya Swasthya Bima Yojana (RSBY), launched in 2008 by the UPA government.

Ayushman Bharat Scheme is not a single scheme, but it is a combination of 2 major Health scheme.

1. Health and Wellness Centre

- Under this 1.5 lakh centres will bring health care system closer to the homes of people. The main purpose of establishing these health centres is to provide comprehensive health care.
- Budget - The Budget has allocated Rs.1200 crore for this flagship programme.

2. National Health Protection Scheme

- National Health Protection Scheme will cover over 10 crore poor and vulnerable families.
- It will have 50 crore beneficiaries.
- Under this scheme, a medical financial assistance of Rs. 5 lakh per year will be given to every family.
- This scheme will be world's largest government-funded health care programme.

Key features of the scheme:

- Medical insurance – A medical insurance cover of **Rs. 5 lakh per year** will be provided to every family covered under this scheme.
- Premium – **A premium of Rs. 2000** will be there every year, which will be borne by the Central and state government.
- **60% of the premium** will be borne by the Central government whereas the remaining 40% will be done by the state government.
- **Around 100 million poor families** will be covered under Ayushman Bharat Yoana 2018.

2. Pradhan Mantri Jan Dhan Yojana

- The overdraft limit for account holders of Pradhan Mantri Jan Dhan Yojana has now been doubled to Rs. 10,000 from Rs. 5,000.

- The age limit for availing overdraft facility has also been revised from 18-60 years to 18-65 years.
- Under the expanded coverage from 'every household to every adult', accidental insurance cover for new RuPay card holders has been raised from Rs**. 1 lakh to Rs. 2 lakh** to Pradhan Mantri Jan Dhan Yojana accounts opened after August 28, 2018
- The scheme was launched in August 2014, the first phase of the Pradhan Mantri Jan Dhan Yojana scheme was focused on opening basic bank accounts to achieve financial inclusion.

3. Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJY) – Pradhan Mantri Jeevan Jyoti Bima Yojana is a government-backed Life insurance scheme in India.

Key points of the scheme:

- PMJJBY is a pure term insurance policy. The policy provides life coverage for 1 year.
- The cover period is 1st June of each year to 31st May of subsequent year.
- **Eligibility**: Minimum **18 years** and **maximum 50 years** and have bank account are eligible for the scheme. If the account is opened before attaining the age of 50 years, the life cover would remain intact up to the age of 55 years, if premium is paid regularly.
- **Premium - Rs.330** per year i.e. less than Rs.1 per day.
- **Risk coverage - Rs.2 Lakh** in case of death for any reason.

4. Pradhan Mantri Suraksha Bima Yojana (PMSBY): It is an insurance scheme which covers death or disablement of the policyholder caused due to accident or accidental injuries.

Key points of the scheme:

- **Age limit**: Minimum **18 yrs** and **maximum 70 years**. The scheme will be a one- year cover, renewable from year to year and would be administered through the Public Sector General Insurance Companies in collaboration with Banks.
- **Risk coverage**: **Rs. 2 Lakh** and for partial disability cover of Rs. 1 Lakh.
- **Premium**: **Rs.12 per annum**. The premium will be directly auto-debited by the bank from the subscribers' account.

5. LIC Varishtha Pension Bima Yojana - Life Insurance Corporation of India is the implementing agency of the Varishtha Pension Bima Yojana.

- It aims to provide social security during old age and protect elderly persons aged **60 years** and above against a future fall in their interest income due to uncertain market conditions.
- This scheme aims to guard the interests of senior citizens with a guaranteed interest rate **of 8 % for 10 years**.
- The validity of scheme - As per the announcement made in the Budget 2018, the scheme will remain open for subscription till 31st March 2020.

6. Pradhan Mantri Fasal Bima Yojana – In April 2016, the government of India had launched the Pradhan Mantri Fasal Bima Yojana (PMFBY) to provide crop insurance to the farmers. PMFBY is a replacement scheme of National Agriculture Insurance Scheme (NAIS), Weather-based Crop Insurance scheme and Modified National Agricultural Insurance Scheme (MNAIS).

Objectives of the scheme

- To provide insurance coverage and financial support to the farmers in the event of failure of any of the notified crop as a result of natural calamities, pests & diseases.
- To stabilise the income of farmers to ensure their continuance in farming.
- To encourage farmers to adopt innovative and modern agricultural practices.

- To ensure flow of credit to the agriculture sector.

Premium –

- Under PMFBY, the premium amount for all Kharif crops is **2 %** and the premium amount for all Rabi crops is **1.5 %.**
- In the case of annual commercial and horticultural crops, the premium to be paid by farmers will be only **5%.**

LIC launches Micro Bachat plan no. 851

- In Feb 2019, LIC launched a new Micro Insurance Plan called "Micro Bachat".
- It is a regular premium, non-linked, participating Endowment Micro Insurance Plan, which offers a combination of protection and savings.
- This is for the first time, a micro insurance plan has been launched providing coverage up to Rs 2 lakh.
- Minimum Basic Sum Assured: Rs. 50,000
- Maximum Basic Sum Assured: Rs. 200,000
- The Basic Sum Assured is available in multiples of Rs.5,000
- Age limit - Minimum Age at entry: 18 years & Maximum Age at entry: 55 years
- Policy Term: 10 to 15 years.

LIC's Navjeevan Plan No.853

- In March 2019, LIC launched a new assurance policy called Navjeevan.
- It is a non-linked "with profit" endowment assurance plan and the premium can be paid either lumpsum, as a single premium, or under the Limited Premium option with a 5-year payment term.
- The minimum age to avail of the plan is **90 days** and the maximum age is **65 years.**
- Minimum Basic Sum Assured: Rs. 1 lakh
- Maximum Basic Sum Assured: no limit.

Current Affairs related to the Insurance Sector

1. **Merger of three PSU General insurers - National Insurance Company Limited (NICL)**, United India Insurance Company Limited (UIICL) and Oriental Insurance Company Limited (OICL) will soon be merged into a single insurance entity.
    - The move was announced by Finance Minister Nirmala Sitharaman in her maiden Budget 2019-20 speech, proposing to amend the General Insurance Business (Nationalisation) Act, 1972 to enable the merger of non-life insurance companies.
    - The Finance Bill, announced alongside the Budget 2019-20, proposed to replace the "there will be four companies" statement of a 1972 act section with "there will up to four companies".
2. **LIC launches new term insurance plan 'Jeevan Amar'** – This new term plan is not a market-linked plan that will give two options for subscriptions- **Level Sum Assured and Increasing Sum Assured**. **Key points –**
    - The policyholder cannot claim the amount on maturity.
    - The nominee will receive the death claim in case of demise of the life assured during the term of the policy.
    - The plan is available for ages **18-65 years** with the maximum age maturity at 80 years offering policy terms from 10 years to a maximum of 40 years.
    - The policyholder has the flexibility to choose the death benefit payout, that is, he or she can choose whether the nominee receives the

money in lump sum or in installments over a period of 5, 10 or 15 years.

- Minimum Basic Sum Assured under the plan is Rs 25 lakh with no maximum limit.
- There will be three options for a policyholder to choose from single, regular and limited premium payment option.

3. **Bank of Baroda, Max Bupa Health Insurance join hands with feeding India to launch Swasthaneev**
    - Bank of Baroda, and Max Bupa Health Insurance have jointly pledged to feed 112,000 meals to the underprivileged citizens, within two months.
    - The initiative is aimed to contribute to the nation's fight against hunger and enable underprivileged citizens to lead healthier lives.
4. **SBI General Insurance**, has launched new cyber insurance scheme for the customers, to safeguard their online bank account or of ATM fraud.
5. The Budget 2019-20 tabled in Parliament on July 5, permitted foreign companies to own up to **100 per cent in insurance intermediaries**
    - The proposed change is only applicable to **insurance intermediaries** while the cap on foreign ownership in insurance companies will remain at 49%
6. **Children top most concern for fathers; only 17pc keep health as priority: Study**
    - A study conducted by Future Generali India Life Insurance Company Limited and Market Xcel – Market Agency Research in India has found 17 per cent of fathers in the nation's capital are worried about their health, while 38 per cent feared for their children's future.
    - This is followed by financial security (16 per cent) and loss of family (14 per cent).
7. **Max Life Insurance Company** launched a unique proprietary tool named 'My Protection Quotient' (MyPQ) to ensure financial protection in the country.
8. **Insurance penetration in India at 3.69%, one of the lowest across the world**
    - According to the annual report by IRDAI, Insurance penetration in India continues to be one of the lowest at 3.69%.
    - Insurance penetration is calculated as first year new business premium to GDP.
    - According to the report, the life insurance penetration was at 4.6% in 2009.
    - According to the report, the new business premium for life insurance has increased from Rs. 9,707.4 crore in FY 2000-01 to Rs. 19.41 trillion in FY 2017-18.
9. **SEBI, IRDAI set up regulatory sandbox for fintech innovations -** IRDAI will allow companies to test products as part of its regulatory sandbox approach to test new digital and tech-based innovations before launching them in the market.
    - The objective of **Regulatory Sandbox** is to facilitate innovations in the insurance sector, make the insurance products more affordable and relevant for the insured and to give a fillip to insurance penetration.

    Committee on Regulatory Sandbox

    - IRDAI had constituted a committee on Regulatory Sandbox in insurance space in India under the **Chairmanship of Mr. Randip Singh Jagpal** (CGM, IRDAI).

Key recommendation of the committee

- Applicants can test products for up to a **period of one year in five categories** – insurance solicitation or distribution, insurance products, underwriting, policy and claims servicing.
- The permission shall be granted for a period of six months, which can be extended for another six months.
- If the proposal covers 5,000 persons or completes **₹50 lakh of premium** or any other parameter specified by the IRDAI, the proposal will be considered completed.
- Applicants would include insurers or insurance intermediaries or any other entity

other than an individual having a minimum net worth of **₹25 lakh** for the last three years.
- An applicant should have a net worth of **Rs 10 lakh and a proven financial record of at least one year**.

10. The Indian insurance regulator IRDAI has partnered with the **National Health Authority** to study the prime minister's health insurance scheme (Pradhan Mantri Jan Arogya Yojana) and suggest measures to streamline its implementation.

11. IRDAI formed a committee to look into India's **systemically important insurers**. **Pravin Kutumbe** is the head of the committee to look into the issue of India's systemically important insurers. The committee was formed by the Insurance Regulatory and Development Authority of India (IRDAI) in January 2019. Pravin Kutumbe is the member finance of IRDAI.

12. The government has set up a committee to examine the issues related to framing of a proper, structured scheme for providing insurance cover to advocates and suggest modalities for its implementation.
- Law and Justice Minister Ravi Shankar Prasad has set up the five-member panel under the **chairmanship of Secretary Legal Affairs.**

13. As per the IRDAI rules, the minimum amount of capital required to become a **direct broker** is **Rs. 75 lakh** (earlier it was Rs. 50 lakh).
- There are changes made in the minimum capital, deposit and net worth requirement for registration as an Insurance Broker.

Following are the minimum prescribed requirements as per IRDA (Insurance Broker) Regulations, 2018:

Minimum Capital Requirement
- For Direct Broker – Rs. 75 Lakh (earlier it was Rs. 50 lakh)
- For Reinsurance Broker – Rs. 4 Crore (earlier it was Rs. 2 lakh)
- For Composite Broker – Rs. 5 Crore (earlier it was Rs. 2.5 lakh)

Minimum Net worth Requirement
- 50 Lakh for Direct Broker and
- 50% of the Minimum Capital Requirement for reinsurance and composite Broker.

Minimum Deposit Requirement
- 10 Lakh for Direct Broker and
- 10% of the Minimum Capital Requirement for reinsurance and composite Broker.

Note: A direct broker is an insurance broker who carries out function the field of life insurance or general insurance or both on behalf of his clients.
- A direct broker helps his/her clients in paying a premium under section 64VB of Insurance Act, 1938 (4 of 1938).

14. Bharti Axa General Insurance won the '**Non-Life Insurer of The Year Award 2019'**. The award was presented by the Associated Chambers of Commerce and Industry of India (ASSOCHAM).

Note:
- Bharti AXA General Insurance is a joint venture between Bharti Enterprises and French insurance company AXA.
- Its headquarters is in Mumbai.
- Sanjeev Srinivasan is the CEO & MD of Bharti AXA General Insurance.

15. India Post Payments Bank (IPPB) and Bajaj Allianz Life Insurance Co Ltd (BALIC) have entered into a strategic partnership to provide life insurance solutions.

16. Employees' State Insurance Corporation (ESIC) has approved a new scheme '**Atal Bimit Vyakti Kalyan Yojna'** for insured persons covered under the Employees' State Insurance Act. It was approved by the Santosh Kumar Gangwar, Union Minister of State for Labour & Employment (I/C).

17. Insurance regulator IRDAI has raised the minimum insurance cover for owner-driver to Rs. 15 lakhs for a premium of -- Rs. 750 per annum.

Note:
- At present, the compulsory accident cover for motorised two-wheelers and private cars/commercial vehicles is Rs 1 lakh and Rs 2 lakh respectively.

- It is also mandatory for buyers of new cars and two-wheelers to purchase third-party insurance cover.

18. HDFC Life has appointed as its new managing director (MD) and CEO -- Vibha Padalkar.

19. HDFC Standard Life Insurance is now HDFC Life Insurance - HDFC Standard Life Insurance Company Limited ('HDFC Life') announced that its corporate name has changed to "HDFC Life Insurance Company Limited.

20. LIC Housing Finance (LIC HFL) has launched 'Udyam', a skilling centre in Bengaluru to empower youths of the country.

- It has been launched in association with Lok Bharti Education Society, the implementing partner.

21. IRDAI has set up **Suresh Mathur Committee** to review regulatory framework on micro insurance, and to recommend measures to increase demand for such products.

22. Pune, one of the least insured cities: Survey

- A survey by Max Life Insurance has revealed that only 58 per cent of Pune's population owns life insurance, making it one of the least insured cities in the country.
- According to the 'India Protection Quotient' survey conducted by Max Life and Kantar IMRB, Pune stands at a Protection Quotient of 27 out of 100, lesser than the national average of 35 for urban India.

23. MobiKwik, a leading fintech platform, has launched a '**home contents' insurance product** that provides Rs. 2 lakh cover for both home owners and those who take them on rent.

- For a small premium of Rs. 25 per month, you can now secure the contents of your home using a mobile app and protect them against mishaps.

24. Bajaj Allianz launches Total Health Secure Goal plan - Bajaj Allianz General Insurance in collaboration with Bajaj Allianz Life Insurance launched their first product 'Total Health Secure Goal'.

- The new insurance product is a combination of two existing plans - Health Guard policy by Bajaj Allianz General Insurance, and iSecure from Bajaj Allianz Life Insurance.

25. SBI General launches cyber defence insurance for businesses - SBI General Insurance has launched a product – cyber defence insurance to protect businesses from financial and reputational losses due to cyber-attacks. This offers protection against the growing threat of cyber breaches.

26. Canara Bank, life insurance arm launch 'Webassurance' - Canara Bank and its life insurance partner Canara HSBC Oriental Bank of Commerce Life Insurance Saturday announced the launch of 'Webassurance'.

- Four life insurance products of Canara HSBC OBC Life would be made available to customers of Canara Bank, covering the key needs of child future, savings and investments, retirement planning and protection.

Note:

- Canara HSBC OBC Life is jointly owned by two public sector banks - Canara Bank (51 per cent) and Oriental Bank of Commerce (23 per cent) and HSBC Insurance Holdings (26 per cent), the Asian insurance arm of banking and financial services groups HSBC

27. MetLife Recognized in Forbes' Inaugural Blockchain 50 List - MetLife has been named in the Forbes' inaugural Blockchain 50 List, the first ever ranking of the top 50 organizations.

- MetLife is a multinational insurance company. It is headquarters in New York, United States

28. Demand for cyber risk insurance in India grew by 40% in 2018 – According to the report released by Data Security Council of India (DSCI), demand for cyber risk insurance in India grew by 40% in 2018.

- Report showed that 350 cyber insurance policies were bought by Indian corporates in 2018 as against 250 in 2017 marking a 40 per cent increase in the sale of these products.

29. **HDFC ERGO General Insurance Company has announced to launch the Mosquito Disease Protection Policy –** This new policy will cover an individual against common mosquito-borne diseases like Dengue Fever, Malaria, Chikungunya, Japanese Encephalitis, Kala-azar,
    - Lymphatic Filariasis and Zika Virus. These diseases also lead to hospitalization adding burden on expense or affecting the No Claim Bonus of any standard Health Insurance.
30. **Bharti AXA Life Insurance**, a private life insurer, has been conferred with the **FICCI Claims Excellence Award**. The recognition comes for its customer-friendly claims services in the life insurance sector.
31. **IDBI Bank sold insurance policies** worth in March 2019 after a partnership with Life Insurance Corporation of India (LIC) -- Rs 160 crore.
    - The bank sold 26,116 policies in the month of March 2019. LIC is the majority shareholder in IDBI Bank holding a 51 per cent stake in the banking entity.
32. **ACKO General Insurance** has been awarded the coveted 'Golden Peacock Innovative Product Award – 2019' for their contextual micro insurance product 'Ola Ride Insurance'.
33. Aviva Life Insurance has announced to launch a specially designed mentorship program '**Wings**' to empower the female workforce.
34. The Jammu and Kashmir Bank has proposed to sell its stake in PNB Metlife India to private equity player Oman India Joint Investment Fund for Rs. 185 crores.
35. SBI Life Insurance has appointed Sanjeev Nautiyal as new Managing Director (MD) and Chief executive officer (CEO).
36. The Kerala Government has launched the 'Cow Samridhi Plus Scheme' to provide insurance coverage to dairy farmers in the state.
37. PNB Metlife has unveiled an Artificial Intelligence (AI)- powered customer service app Khushi.
38. **HDFC ERGO** has announced the launch of **'E @ Secure', a Cyber** Insurance Policy for individuals.
    - **HDFC ERGO's E @ Secure** Insurance policy offers comprehensive protection against cyber risks and frauds carried out from any device and from any location worldwide.

Important Concept and Terms of Insurance

1. **Actuary -** A person with expertise in the fields of economics, statistics and mathematics, who helps in risk assessment and estimation of premiums etc. for an insurance business, is called an actuary.

Actuaries are experts in:

- Evaluating the likelihood of future events—using numbers, not crystal balls.
- Designing creative ways to reduce the likelihood of undesirable event.
- Decreasing the impact of undesirable events that do occur
- Actuaries may also be involved with the acceptance of proposals for new policies, with legal and taxation matters affecting life assurance, or with the investment of funds.

2. **Appraisal Value -** Appraisal value is used to measure the value of an insurance company. It is also known as actuarial appraisal value.
3. **Assignor -** A party or entity who transfers the rights of the contract they hold to another party (assignee) is called the assignor. Assignor transfers the complete rights of ownership and benefits pertaining to the contract to the assignee. For instance, party A gives an absolute assignment to party B of an insurance policy of Rs 5 lakh. Here A becomes the assignor.
4. **Adjuster** - An adjuster is a person who is responsible for the evaluation and settlement of an insured claim. An adjuster may be an employee of an insurer, or an individual operating independently and engaged by

an insurer or insured to adjust a particular loss or claim.

5. **Agent –** An agent is a person who represents an insurance firm and sells insurance policies on its behalf. Agents are only responsible for the timely and accurate processing of forms, premiums, and paperwork.
   Generally, there are two types of such agents:
   (i) Captive Agent – Agent sell Insurance of a specific Company.
   (ii) Independent Agent – Agent who works independently and sells Insurance of many companies.
6. **Annuity -** A long-term contract sold by an insurance company designed to provide payments to the holder at specified intervals, usually after retirement. The goal of annuities is to provide a steady stream of income during retirement.
   - A life annuity is an annuity, or series of payments at fixed intervals, paid while the purchaser is alive.

Annuities come in three main varieties - **fixed, variable and indexed** - that each have their own level of risk and payout potential.

(i) Fixed Annuity - In a fixed annuity, the insurance company guarantees the principal and a minimum rate of interest, regardless of what may happen in the market. In other words, as long as the insurance company is financially sound, the money you have in a fixed annuity will grow and will not drop in value.

(ii) Variable Annuity - Variable annuity, the contract value fluctuates based on the ups and downs the market may experience. Variable annuities do not guarantee a return. This is because they were designed to give individuals a chance to invest in professionally managed subaccounts, consisting of a mix of stocks, bonds and money market funds, that offer the possibility of higher returns. Variable annuities should be considered as a long-term investment due to the limitations on withdrawals.

(iii) Indexed Annuity - An indexed annuity is a special class of annuities that yields returns on contributions based on a specified equity-based index. Index annuities carry what's called a guaranteed minimum return. Typically, this means if you buy an index annuity, you are guaranteed to receive at least a certain amount. The amounts vary more than a fixed annuity, but less than a variable annuity.

Difference between immediate annuity & deferred annuity –

(i) Immediate annuity - An annuity that begins paying out immediately is referred to as **an immediate annuity.**

- This allows you to convert a lump sum of money into an annuity so that you can immediately receive income. Payments generally start about a month after you purchase the annuity.
- This type of annuity offers financial security in the form of income payments for the rest of your life.

(ii) Deferred annuity – A deferred annuity receives premiums and investment changes for payout at a later time.

- With a deferred annuity, you make a lump sum or a series of premium payments and defer the payout until sometime in the future.
- A deferred annuity has two phases: the accumulation phase, where you let your money grow for a period of time, and the payout phase.
- During accumulation, your money grows tax-deferred until you withdraw it, either as a lump sum or as a series of payments. You decide when to take income from your annuity and therefore, when to pay any taxes owed.

7. **AD&D in Insurance -** AD&D in Insurance refers to **Accidental Death and Dismemberment Insurance**. "Accidental death" under the policy means a death caused by an unforeseen circumstance unrelated to the body. In other words, the death cannot be caused in any way by illness or the insured's physical condition.

   - It is a policy that pays benefits to the beneficiary if the cause of death is an accident. This is a limited form of life insurance which is generally less expensive.

8. **Assignment -** The process by which LIC holder can transfer all rights, title and interest under a policy contract to any third person is known as Assignment.
9. **Assurance – T**he term 'Assurance' is used for those contracts which guarantee the payment of a certain sum on the happening of a specified event which is bound to happen sooner or later. For example, attaining a certain age or death. Thus, life policies come under 'assurance'
10. **Bancassurance -** Bancassurance means selling of insurance products through banks.
    - The insurance companies and the banks come up in a partnership wherein the bank sells the tied insurance company's insurance products to its clients. Bank insurance model is also termed as Bancassurance.
11. **Broker -** An insurance broker is a specialist in insurance and risk management. Brokers act on behalf of their clients and provide advice in the interests of their clients. The insurance Company is not responsible for because the broker represents the insurance client, not the company. Insurance brokers can be best described as a kind of super-independent agent.
12. **Brokerage/commission** - Commission is the incentive received by the insurance agent or salesperson for the sales achieved in a given period. Commission is generally paid as a percentage of the premium on the insurance policies.
13. **Best's Capital Adequacy Relativity (BCAR)** - Best's Capital Adequacy Relativity is a rating of the strength of an insurance company's balance sheet.
    - It examines an insurer's leverage, underwriting activities, and financial performance and uses this information to test various scenarios to see how each would impact the insurer's balance sheet.
    - The basic formula for BCAR is adjusted policyholders' surplus (APHS) divided by net required capital (NRC).
14. **Burglary insurance -** It is an insurance policy that provides financial compensation for loss or damage caused to property and valuable items due to burglary or house breaking
15. **Broad Form Insurance** - A type of insurance that is available for almost every type of asset. This type of insurance provides more than basic coverage.
    - It applies to unusual and risky events that can result in serious harm to the insured.
    - Broad form insurance usually has a high premium and deductible.
    - Automobile insurance is a type of Broad Form Insurance.
    - A basic form policy that typically covers fire, explosions, storms, smoke, riots, vandalism and sprinkler leaks.
    - A broad form policy that adds more coverage for damage from, for example, broken windows and other structural glass, falling objects and water damage.
16. **Coverage**-the amount of protection given by an insurance policy.
17. **Composite insurer -** A composite insurer provides both term insurance and travel insurance. A composite insurer is a company which provides both life insurance products like term insurance and non-life insurance products like travel insurance, home insurance and automobile insurance.
18. **Compulsory Personal Accident (CPA)** - The CPA cover is provided to owner-drivers while driving the vehicle.
    - CPA is a mandatory third-party motor vehicle insurance cover. The minimum Compulsory Personal Accident (CPA) cover for owner-drivers under the motor insurance policy is ₹15 lakh.
19. **Combined insurance package policy** – A single insurance policy which combines many different

types of coverages resulting in a lower price than if each were purchased individually.

20. **Claim adjuster –** A person who investigates insurance claims to determine the extent of the insuring company's liability.
    - Claims adjusters may handle property claims involving damage to structures, and/or liability claims involving personal injuries or third-person property damage.
21. **Double Insurance** – Insurance of same subject matter with two different companies or same company with two different policies is known as Double insurance.
    - Double insurance is opted when in financial situation of insurer is doubtful.
    - But even if insured have Double Insurance he/she can not claim more than the actual loss and cannot claim the whole amount from same insurance. This is also called Dual Insurance.
    - The method of double insurance is considered a legal act.
22. **Death claim -** Death claim is a type of claim made by the nominee of the insured to the insurance company due to death of the insured, abiding to the policy terms and conditions.
    Following four steps are to be followed to file a claim:
    - Claim intimation/notification
    - Documents required for claim processing
    - Submission of required documents for claim processing
    - Settlement of claim
23. **Valid claim & Fraudulent claim -** An insurance company validates the authenticity and amount claimed by the insured in-order to prevent the insurer from exaggerating the claim amount & the claim fraudulently.
    - If it is a valid reason it is classified as **valid claim** or else it is classified as fraudulent claim, thereby if insurance suspects of fraudulence in the claim.

There are 2 types of insurance fraud-

- **Hard fraud –** Hard fraud occurs when a person intentionally fakes an accident, theft, or injury to collect money from an insurance company.
- **Soft fraud –** Soft fraud occurs when a person has a valid insurance claim, but falsifies part of the claim, or exaggerates damages in order to obtain the maximum benefits.

24. **Doctrine of Utmost Good Faith -** Insurance contract is issued on the basis that the applicant truthfully and fully discloses everything he or she knows about his or her health.
    - This arises from the recognition that the insurance company is in a disadvantageous position, as the insurer does not know anything about the applicant. Similarly, the insurance company should deal with the applicant with honesty and integrity.
25. **Electronic Insurance Account** - The **eIA** stand for Electronic Insurance Account. This Electronic Insurance Account gives an access to policy holders to safeguard the policy documents in electronic format.
26. **Free look period** - Free-look gives you a second chance to review your policy and return it if you feel you misunderstood or were missold the plan.
    - It is a period of time in which a new life insurance policy owner can terminate the policy without penalties, such as surrender charges.
    - IRDA specifies free-look period in life insurance is 15 or 30 days after receiving the policy document.
27. **Fidelity Insurance** - It is a form of insurance protection that covers policyholders for losses that they incur as a result of fraudulent acts by specified individuals. It usually ensures a business for losses caused by the dishonest acts of its employees.
    - A Fidelity Insurance policy covers losses sustained by the employer as a result of an act of forgery, fraud or dishonesty from an employee. The loss can be of money or goods, for the duration of the policy.

28. **Floating policy -** A type of insurance in which the value of the goods being insured cannot be calculated exactly, so the payment for insuring them can be changed after a period of time.
    - A type of insurance that protects property or goods in any place and while they are being moved from one place to another.
29. **Personal Auto Policy -** In the insurance sector, PAP stands for Personal Auto Policy.
    - PAP is a type of auto policy that covers the insured for personal liability, physical damage, medical expenses, uninsured or underinsured motorist protection in case of an accident.
30. **Indemnity insurance –** Indemnity Insurance is a policy that protects professional and business owner when found to be faulty for a specific event.
    - It is a contract where one-party guarantee compensation for actual or potential loss sustained by other party.
    - The concept of indemnity is based on a contractual agreement made between two parties, in which one party agrees to pay for potential losses or damages caused by the other party.
    - Indemnity Insurance is also known as Professional Liability Insurance.
    - Indemnity insurance protects against claims arising from possible negligence or failure to perform that result in a client's financial loss or legal entanglement.
    - A client who suffers a loss can file a civil claim, and, in response, the professional's indemnity insurance will pay litigation costs as well as any damages awarded by the court.
31. **Grace Period -** Insurance grace period is a defined amount of time after the premium is due in which a policyholder can make a premium payment without coverage lapsing.
    - Grace period can be from minimum 24 hours to maximum 30 days depending entirely upon insurer.
32. **Group Life Insurance -** A type of insurance coverage offered to a group of people, usually, employees of a company, members of a union or association etc.
33. **Gratuity -** Gratuity is a part of salary that is received by an employee from his/her employer in gratitude for the services offered by the employee in the company.
    - According to Payments of Gratuity Act, 1972 with minimum of 5 years' service during exit is eligible to minimum of 15 days from the last drawn salary for each completed service year.

Gratuity is paid when an employee:

- Is eligible for superannuation
- Retires
- Resigns
- Passes away or is rendered disabled due to accident or illness (if an employee passes away, gratuity will be paid to the employee's nominee).

34. **Keyman Insurance –** It is a type of insurance which is designed to protect or compensate a business in the event of the death of its important executive.
    - It is also known as Key Person Insurance or Key Person Coverage or Key Employee Coverage.
    - The executive is so important for the company that his death, disability or absence could prove to be disastrous for the company or organization.
    - The company or organization is the beneficiary of such type of insurance.
35. **'Third Party Insurance -** It is referred to as a 'third-party' cover since the beneficiary of the policy is someone other than the two parties involved in the contract (the car owner and the insurance company).
    - The policy does not provide any benefit to the insured. However, it covers the insured's legal liability for death/disability of third-party loss or damage to the third-party property.
36. **Third Party Administrators -** Third Party Administrators or TPAs are a vital link between

health insurance companies, policy holders and health care providers.

- The TPAs maintain databases of policy holders and issue them identity cards with unique identification numbers and handle all the post policy issues including claim settlements.

37. Indemnification - Compensation to the victim of a loss, in whole or in part, by payment, repair, or replacement.

38. Mortality Charge - Mortality Charge is the amount charged every year by the insurer to provide the life cover to the policyholder on the life of the Life Insured. It is also called as Cost of Insurance.

- It is the actual cost of insurance by the life insurance company. It is usually deducted with other charges in the policy, before investing your money.

39. Moral Hazard - Risk depends on the need for insurance, state of health, personal habits standard of living and income of insured person.

- Moral hazard is the risk factors that affects the decesion of the insurance company to accept the risk.

40. Retention Limit - The point beyond which the insurer cedes the risk to the reinsurer is called Retention Limit.

- Retention limits are determined by the insurer. It is calculated on the basis of Net Amount at Risk.
- If the retention limit is higher than the reinsurance costs will be lower.

41. Reinstatement - The process of renewing an insurance policy after it gets terminated is called Reinstatement.

- Before reinstatement of any insurance policy, various factors are considered. The insured person may have to compensate for the failure to pay the premium.

42. Mitigation - Minimizing the risk associated with a loss due to unwanted events is called mitigation. It is an important factor which an insurance business should take into consideration so as to reduce the losses due to unwanted events.

43. Maturity Date (Date of Maturity) – It is the date on which the contract between the person and the insurance company will come to an end.

Note:

- A maturity benefit is a lump-sum amount the insurance company pays you once the policy matures.
- This essentially means that if your insurance policy is for a term of 15 years, you, the insured, will get a pay-out after these 15 years. This amount includes the premiums you made through the years as well as a bonus.
- **Maturity claim -** It simply means that when the policy completes its tenure, a certain amount of money called Maturity Claim amount is settled towards the life assured.

44. Premium - The premium is the amount you pay to keep the life insurance plan active and enjoy continued coverage.

45. Peril - A specific cause of loss covered by an insurance policy, such as a fire, windstorm, flood, or theft is known as peril.

- A peril is an event or circumstance that causes or may potentially cause a loss.
- Examples of perils include fire, flooding, hailstorms, tornadoes, hurricanes, auto accidents, or home accidents, such as falling.

46. Penetration Rate - Penetration Rate is an indicator that indicates the level of development of Insurance sector in a country.

- Penetration Rate is measured by dividing premium underwritten in a particular year by GDP of the country in same fiscal year.
- This would mean that policies such as Unit Linked Investment Plans (ULIPs) which have higher rates of premium, would lead to higher insurance penetration rate, whereas, term policies which have lower rates of premium would lead to a lower penetration.

- Penetration Ratio is 3.69% in India which is one of the lowest across the world.

47. **Package Policy -** Any insurance policy which covers two or more lines or types of insurance in the same policy.
48. **Insurable and Uninsurable Risks -** The various life risks cannot be treated individually, so they are put under a few broad categories based on the degree of each risk. There are two main classes of risk:
 (i) Insurable Risks. - A risk that conforms to the norms and specifications of the insurance policy in such a way that the criterion for insurance is fulfilled is called insurable risk. Here the insurance company has enough statistics to work out the probability of the risk. E.g. Fire insurance.
 (ii) Uninsurable Risks - In case of a scenario where the loss is too huge that no insurer would want to pay for it, the risk is said to be uninsurable.
    - A risk is uninsurable when an insurance company cannot calculate the probability of the risk and therefore cannot work out a premium that the business must pay.
49. **Lapse in Insurance -** The policy for which all benefits to the policy holder cease and is terminated due to nonpayment of premium amount on the due date or even after the grace period is called a lapsed policy.
    - Excessive delay in payments and servicing of the policy leads to the policy being dead or lapsed. However, a lapsed policy may be revived by fulfilling the terms and conditions as per the policy statement.
50. **Surrender Value -** Surrender Value is the amount the policy holder will get from the insurance company if he decides to exit the policy before maturity.
    - All the benefits associated with that policy along with protection cover will cease to exist in case of surrender.
51. **Paid up value -** The right to change the normal policy into paid up value is given to the insured by the insurance company, if the insured have paid premiums for minimum of three years.
    - The paid policy means, after the period if the insured cannot pay premium then the policy is not cancelled but the sum assured is reduced in proportion to the number of premiums paid by the insured.
52. **Terminal bonus -** Terminal bonus is the loyalty bonus paid by the insurance company to the insured for maintaining the policy till the maturity date.
    - It is the bonus paid during the time of maturity and the value is not guaranteed by disclosed during the time of policy maturity only. Terminal Bonus is also known as **persistency bonus.**
53. **Standard Endorsement Form (SEF)** can be added to an Automobile Insurance policy and serve the purpose of either adding or removing coverage from the policy.
54. **Micro Insurance Plan** refers to the insurance plan given to the low income households. This is like any other insurance plan but it focuses on low income peoples. Under this the premium paid is very low.
55. **Rider** - A rider is an additional clause or condition added to the base policy that gives additional (add-on) benefit to the buyer.
    - Riders are bought at the time of purchase or on policy anniversary. There are different types of riders that can be bought along with the base plan.
    - Here's the list of some well-known riders offered by life insurance companies.
    - Accidental Death Benefit Rider
    - Accidental Total and Permanent Disability Benefit Rider
    - Critical illness Cover
    - Hospital Cash
    - Waiver of Premium.
56. **Subrogation** – An assumption by a third party as a second creditor or an insurance company of another party's legal right to collect a debt or damages is known as Subrogation.

- It is the right for an insurer to pursue a third party that caused an insurance loss to the insured.
- This is done as a means of recovering the amount of the claim paid to the insured for the loss.

These are the types of Subrogation:

- Indemnity Insurance
- Law of Guarantees
- Bills of Exchange
- Trust Creditors
- Subrogation to outgoing securities

Note:

- Subrogation is not applied to non-indemnity contracts. Non-indemnity contracts are the contracts in which there is no obligation to pay for the losses.
- Subrogation means to pay for the damages caused. So, when a non-indemnity contract is signed, subrogation is itself exempted. Example - gifts.

Principle of Subrogation –

- This principle involve **Stepping into shoes of other** at involves the insured to claim the amount from the third party responsible for the loss by allowing the insurer to pursue legal methods to recover the amount of loss.
- For example, if you get injured in a road accident, due to reckless driving of a third party, the insurance company will compensate your loss and will also sue the third party to recover the money paid as claim.

57. **Term Life Insurance** - Term life insurance is a policy with a fixed life or term during which payments are usually made periodically (i.e. monthly or annually). At the end of the policies life the obligations of the insurer end, in terms of having to pay out a sum on the death of the insured individual.
    - In the event of death of term insurance policyholder during policy term, the beneficiary can claim death benefits from the insurance company.
58. **Underwriters -** Underwriters evaluate the risk involved in insurance. The process of risk evaluation starts before the issuance of insurance policy, and ends with settlement of the claim.
59. **Whole Life Insurance** - Whole life insurance (or permanent life insurance) is a policy set up where a set benefit is to be paid out on the death of the insured and does not expire (as long as all required payments are made).
    - The cost to the insured individual is often monthly or annual payments established at the onset of the policy that will not be changed over its life.
60. **Vesting Age** - The age at which the insured starts receiving a pension from the insurance company in an insurance-cum-pension policy is known as vesting age.
61. **Reinsurance** – Reinsurance is a form of insurance purchased by insurance companies in order to mitigate risk.
    - Essentially, reinsurance can limit the amount of loss an insurer can potentially suffer.
    - In other words, it protects insurance companies from financial ruin, thereby protecting the companies' customers from uncovered losses.
    - Reinsurance is insurance for insurance companies.

Two types of reinsurance - There are two main categories of reinsurance: treaty and facultative.

- **Treaty reinsurance** agreements cover all or a portion of an insurer's risks, and they are effective for a certain time period.
- **Facultative coverage** insures against a specific risk factor. The underwriter would evaluate the individual risk factor and write a policy accordingly.

Proportional vs. nonproportional reinsurance

- Treaty and facultative reinsurance policies can be proportional or nonproportional in structure.
- **A proportional reinsurance** (also known as "pro rata" reinsurance) agreement obligates the reinsurer to bear a portion of the losses, for which it receives a prorated share of the insurer's premiums. For example, a proportional reinsurance agreement may require a reinsurer to cover 50% of losses.
- **Non-proportional reinsurance** (also known as "excess of loss" reinsurance) agreements kick in when the insurer's losses exceed a set amount. For example, a windstorm insurance company could seek a reinsurance agreement that would cover all losses from a hurricane in excess of $1 billion.

62. Uberrimae Fidei mean - Uberrimae Fidei is famously known as the doctrine of **utmost good faith**.

- This is a very well-known doctrine that means that anyone making a contract with the insurance company will act in utmost good faith.
- He/She will not hide any material fact that would have otherwise affected the insurance policy.

63. Insurance Repository- "Insurance Repository" means a company formed and registered under the Companies Act, 1956 (1 of 1956) and which has been granted a certificate of registration by Insurance Regulatory and Development Authority (IRDA) for maintaining data of insurance policies in Electronic form on behalf of Insurers. The Insurance Repositories provide the ease of holding insurance policies issued in an electronic form.

Objective of an Insurance Repository -

- The objective of creating an insurance repository is to provide policyholders a facility to keep insurance policies in electronic form and to undertake changes, modifications and revisions in the insurance policy with speed and accuracy.
- In addition, the repository acts as a single stop for several policy service requirements. The Insurance repository system also brings about efficiency and transparency in the issuance and maintenance of insurance policies.

Important Plan and Policy of Insurance

General Insurance Policy - A policy that protects one from losses and damages other than covered by life insurance is known as General Insurance Policy. It covers:

- Personal property such as car or house
- Liability Insurance- Legal liabilities
- Accident and health Insurance
- Property against natural calamities like flood, fire, earthquake etc.
- Burglary and theft
- Coverage on transport vehicles carrying goods like Cargo Ship
- Coverage against machinery breakdown
- Travel

- **What is Endowment Policy? -** The assured has to pay an annual premium which is determined on the basis of the assured's age at entry and the term of the policy. The insured amount is payable either at the end of specified number of years or upon the death of the insured person, whichever is earlier.
- **What is Premium? -** The payment, or one of the regular periodic payments, that a policy holder makes to an insurer in exchange for the insurer's obligation to pay benefits upon the occurrence of the contractually-specified contingency (e.g., death).
- **What is a ULIP? -** ULIP is an abbreviation for Unit Linked Insurance Policy. A ULIP is a life insurance policy which provides a combination of risk cover and investment. The dynamics of the capital market have a direct bearing on the performance of the ULIPs. In a ULIP policy, the investment risk is generally borne by the investor.
- **What types of funds do ULIP offer? -** Most insurers offer a wide range of funds to suit one's investment objectives, risk profile and time horizons. Different funds have different risk profiles. The potential for returns also varies from fund to fund. The following are some of the common types of funds available along with an indication of their risk characteristics.

  1) Equity Funds (Medium to High risk) – Primarily invested in company stocks with the general aim of capital appreciation

  2) Income, Fixed Interest and Bond Funds (Medium risk) – Invested in corporate bonds, government securities and other fixed income instruments

  3) Cash Funds (Low risk) – Sometimes known as Money Market Funds — invested in cash, bank deposits and money market instruments

  4) Balanced Funds (Medium risk) – Combining equity investment with fixed interest instruments
- **Money Back Policy -** A money back plan is a type of life insurance plan that allows the policyholder to receive payouts at regular intervals during the policy term as part of the survival benefit.
- **Unit Fund? -** The allocated (invested) portions of the premiums after deducting for all the charges and premium for risk cover under all policies in a particular fund as chosen by the policy holders are pooled together to form a Unit fund.
- **Fund Value? -** The total value of the units in all the funds invested in by policy holder at the valuation date. The value of the units in each fund on the valuation date is calculated as–

  (Number of units held by you in that fund) X (Corresponding unit price of that fund at the valuation date)

Important Insurance Abbreviations

1. ARM – Associate in Risk Management
2. ARMP – Associate in Risk Management for Public Entities
3. BAP – Business Auto Policy
4. BOP – Business Owners Policy
5. CPA - Compulsory Personal Accident
6. CFROI – Cash Flow Return on Investments
7. CIC – Certified Insurance Counselor
8. CISR – Certified Insurance Service Representative
9. CPIW / CPIM – Certified Professional Insurance Woman / Man
10. DOD – Date of Death
11. DSU – Delay in Start-Up Insurance
12. EAP – Estimated Annual Premium
13. EPD – Expected Policyholder Deficit
14. EPLI – Employment Practices Liability Insurance
15. ETB – Engaged In Trade or Business
16. FIRM – Flood Insurance Rate Map
17. FMV – Air Market Value
18. GAP – Guaranteed Auto Protection
19. GIO – Guaranteed Insurability Option
20. GL – General Liability

21. GWP – Gross Written Premium
22. HII – Health Insurance Institute
23. HIPAA – Health Insurance Portability and Accountability Act
24. HLV – Human Life Value
25. IIAC – International Insurance Advisory Council
26. III – Insurance Information Institute
27. IRI – Industrial Risk Insurers
28. IRIS – Insurance Regulatory Information System
29. IRM – Improved Risk Mutuals
30. ITI – Insurance Testing Institute
31. LIAMA – Life Insurance Agency Management Association
32. LIRB – Liability Insurance Research Bureau
33. LOC – Letter Of Credit
34. M&D – Minimum and Deposit
35. MDO – Monthly Debit Ordinary Life Insurance
36. MPL – Maximum Possible Loss
37. MPP – Managed Premium Plan
38. MLE – Maximum Loss Expectancy
39. MVR – Motor Vehicle Record
40. NDI – National Disaster Insurance Association
41. NFIP – National Flood Insurance Program
42. NIOSH – National Institute for Occupational Safety and Health
43. OCA – Outstanding Claims Account
44. ORFS – Operational Risk Financing Securities
45. ORM – Operational Risk Management
46. PAP – Personal Auto Policy
47. PIA – Primary Insurance Account
48. RAM – Reverse-Annuity Mortgage
49. RARORAC – Risk-Adjusted Return On Risk-Adjusted Capital
50. SEC – Securities and Exchange Commission
51. SPAP – Special Personal Auto Policy
52. TDI – Trade Disruption Insurance
53. TERI – Targeted Enterprise Risk Insurance
54. TOLI – Trust-Owned Life Insurance
55. TPA – Third-Party Administrator
56. UL – Umbrella Liability
57. ULIP- Unit Link Insurance Plan
58. UMV – Uninsured Motor Vehicle
59. WCRI – Workers Compensation Research Institute
60. YRCT – Yearly Renewable Convertible Term
61. YRT – Yearly Renewable Term

Best Wishes for Your Exams

Central Bank of India (RBI)

- The central bank of the country is the Reserve Bank of India (RBI).
- It was established in April 1935 with a share capital of Rs. 5 crores on the basis of the recommendations of the Hilton Young Commission.
- RBI was nationalized on 1 January 1949.
- **The Management of RBI:** The Executive head of the RBI is called the Governor, who is assisted by 4 Deputy Governors and other executive officers.
- **Present Governor of RBI –** Shaktikanta Das is the present governor of RBI. He assumed charge as the 25th Governor of the Reserve Bank of India. He succeeds Urjit Patel.

Powers of RBI – The Reserve Bank of India Act, 1934 and the Banking Regulation Act, 1949 have given the RBI wide powers of:

Supervision and Control over commercial Banks - relating to

- licensing and establishments,
- branch expansion,
- liquidity of their assets,
- management and methods of working,
- amalgamation (merger)
- reconstruction and liquidation.

Functions of RBI

- **Issue of Currency** – RBI is the sole authority for the issue of currency in India other than one rupee notes and subsidiary coins, the magnitude of which is relatively small. The RBI is also called **"Bank of Issue".**

  Note:
  - **Under the Section 22 of the RBI Act 1934**, RBI has the sole right to issue Bank notes of all denominations except one rupee note.
  - The One Rupees notes, and coins are issued by the **Central Govt., The Ministry of Finance**.
- **Banker to the Government –** As a Bankers to the Govt. RBI performs the following functions:

  (i) It accepts money, makes payment and also carries out their exchange and remittances for the Govt.
  (ii) It makes loans and advances to the States and local authorities.
  (iii) It also sells treasury bills to maintain liquidity in the economy.
  (iv) It makes ways and means advances to the Governments for 90 days.
  (v) It acts as adviser to the Government on all monetary and banking matters.
- **Banker's Bank –** The RBI has extensive power to control and supervise commercial banking system under the RBI Act, 1934 and the Banking Regulation Act, 149.

(i) The Banks are required to maintain a minimum of Cash Reserve Ratio (CRR) with RBI.
(ii) The RBI provides financial assistance to scheduled banks and state cooperative banks.
(iii) Enables banks to maintain their accounts with RBI for statutory reserve requirements and maintenance of transaction balances.

- **Custodian of foreign exchange reserves** – The RBI functions as the custodian and manager of forex reserves, and operates within the overall policy framework agreed upon with Government of India.
  (i) The ‘ reserves ’ refer to both foreign reserves in the form of gold assets in the Banking Department and foreign securities held by the Issue Department, and domestic reserves in the form of ‘bank reserves’.
  (ii) Its commonly includes foreign exchange and gold, special drawing rights,(SDRs) and International Monetary Fund(IMF) reserve positions.
- **Controller of credit** – Credit control is generally considered to be the principal function of Central Bank. By making frequent changes in monetary policy, it ensures that the monetary system in the economy functions according to the nation’s need and goals.
- **Lender of last resort –** Lender of the last resort means “Central Bank (RBI) helps all the commercial and other banks in time of financial crises.
  - **Regulator -** RBI is the regulator of Banking & Finance & Money Market.

Subsidiaries of RBI –

- **Deposit Insurance and Credit Guarantee Corporation of India (DICGC)** - It was established on July 15, 1978 under Deposit Insurance and Credit Guarantee Corporation Act, 1961, for the purpose of providing insurance of deposits and guaranteeing of credit facilities.
- DICGC insures all bank deposits, such as saving, fixed, current, recurring deposits for up to the limit of Rs. 1 lakh of each deposits in a bank.
- **Bharatiya Reserve Bank Note Mudran Private Limited (BRBNMPL)** - The Reserve Bank established BRBNMPL in February 1995 as a wholly owned subsidiary to augment the production of bank notes in India and to enable bridging of the gap between supply and demand for bank notes in the country.

Note:

- Under Section 47 of the RBI Act, 1934 the central bank is mandated to pay balance profits to the government.
- Section 7 of the RBI Act empowers the central government to issue directions in public interest from time to time to the bank in consultation with RBI Governor.
- Section 17 deals with the functioning of RBI. The RBI can accept deposits from the central and state governments without interest. It can purchase and discount bills of exchange from commercial banks.
- Section 18 describes emergency loans to banks.

Key features of the bank note introduced by RBI

1. **New 20 Rupee note**
   Series - Mahatma Gandhi (New) Series
   Dimensions - 63 mm x 129 mm
   Base colour – greenish -yellow
   Motif (image on the note) - Ellora Caves (Ellora is a UNESCO World Heritage Site located in the Aurangabad district of Maharashtra)

Note: Old Rs 20 note size is 143 X 63 mm and has a motif of Mount Harriet.

2. **New 100 Rupee note**
   - Series - Mahatma Gandhi (New) Series
   - Dimensions - 66 mm x 142 mm
   - Base colour – Lavender
   - Motif (image on the note) - RANI KI VAV” a heritage site located in Gujarat
3. **New 10 Rupee note**
   - Series - Mahatma Gandhi (New) Series
   - Dimensions - 63 mmX123 mm
   - Base colour – Chocolate Brown
   - Motif (image on the note) - Sun Temple (Konark Sun Temple, commonly known as Konark is situated in the eastern state of Odisha.)
4. **New 200 Rupee note**
   - Series - Mahatma Gandhi (New) Series
   - Dimensions - 66 mmX146 mm

- Base colour – Bright yellow
- Motif (image on the note) - Sanchi Stupa (Sanchi is one of the most important Buddhist monuments located in Sanchi Town, Madhya Pradesh)

5. **New 500 Rupee note**
   - Series - Mahatma Gandhi (New) Series
   - Dimensions - 66mmX150mm
   - Base colour – Stone grey
   - Motif (image on the note) - Red Fort
6. **New 2000 Rupee note**
   - Series - Mahatma Gandhi (New) Series
   - Dimensions - 66mmX166mm
   - Base colour – Magenta
   - Motif (image on the note) – Mangalyaan (The Mars Orbiter Mission, also called Mangalyaan, is a space probe orbiting Mars since 24 September 2014. It was launched on 5 November 2013 by the Indian Space Research Organisation).
7. **New 50 Rupee note**
   - Series - Mahatma Gandhi (New) Series
   - Dimensions - 66 mmX135 mm
   - Base colour – Fluorescent blue
   - Motif (image on the note) – Hampi with Chariot (Hampi, also referred to as the Group of Monuments at Hampi, is a UNESCO World Heritage Site located in east-central Karnataka, India).

Monetary Policy

- Monetary policy is how central banks manage the money supply to guide healthy economic growth.
- The money supply is credit, cash, checks, and money market mutual funds.
- The most important of these is credit, which includes loans, bonds, mortgages, and other agreements to repay.

Objectives of Monetary Policy – The primary objective of central banks is to manage inflation. The second is to reduce unemployment once inflation has been controlled.

- Central bank reduces inflation by raising interest rates, selling securities through open market operations, and other measures to reduce liquidity.

Instrument of Monetary Policy - There are several direct and indirect instruments that are used in the implementation of monetary policy. RBI use following two measures to regulate the monetary policy i.e. **Quantitative and Qualitative Measures**.

Quantitative Measures

- **Open Market Operations (OMOs):** It refers to buying and selling of government securities by RBI in the open market. It controls the money supply in the economy.
- When RBI sells govt. securities to banks, the lendable resources of the latter are reduced and banks are forced to reduce or contain their lending, thus curbing the money supply.
- When money supply is reduced, it results increase in the interest rates tends to limit spending and investment.
- On the other hand, when RBI buys Govt. securities from banks, their lending resources are higher which in turn encourage banks to lend more in the market and lending leads to increase in money supply.
- When money supply is increased, it results decline in the interest rates tends to promote spending and investment.
- **Cash Reserve Ratio (CRR):** It is the amount of funds that the banks have to keep with the RBI.
  For ex - When a bank's deposits increase by Rs100, and if the cash reserve ratio is 4%, the banks will have to hold additional Rs 4 with RBI and Bank will be able to use only Rs 96 for investments and lending / credit purpose. Therefore, higher the ratio (i.e. CRR), the lower is the amount that banks will be able to use for lending and investment.
- **Statutory Liquidity Ratio (SLR):** It indicates the minimum percentage of deposits that the bank has to maintain in form of gold, cash or other approved securities.
  Note:

- If SLR increases, banks need to keep more liabilities (deposits) with them and provides less loans to people.
- If SLR decreases, banks need to keep fewer liabilities (deposits) with them and provides more loans to people. Changes in SLR often influence the availability of resources in the banking system for lending to the private sector.

Liquidity Adjustment Facility (LAF) - It allows banks to borrow money through repurchase agreements. LAF is used to aid banks in adjusting the day to day mismatches in liquidity.

- Bank cannot sell government securities that are under SLR quota.
- Bank can borrow any amount of money.
- Minimum bidding amount is Rs. 5 cr.
- All clients of RBI are eligible to bid.

LAF (liquidity adjustment facility) can be classified into two: **Repo rate & Reverse Repo Rate**

Repo Rate – It is the rate at which RBI lends money to commercial banks in the event of any shortfall of funds.

- It is the rate of interest which RBI implements on the short term loans, i.e., from a period ranging between 2 days to 3 months (90 Days).
- It is used by monetary authorities to control inflation.
- A reduction in the repo rate helps banks get money at a cheaper rate and vice versa.

Reverse Repo Rate – It is the rate at which the RBI borrows money from commercial banks.

- Banks are always happy to lend money to the RBI since their money is in safe hands with a good interest.
- An increase in reverse repo rate can prompt banks to park more funds with the RBI to earn higher returns on idle cash.
- It is also a tool which can be used by the RBI to drain excess money out of the banking system.

Marginal Standing Facility (MSF):

- Marginal Standing Facility is a Liquidity Adjustment Facility (LAF) window created by Reserve Bank of India in its credit policy of May 2011.
- MSF is the rate at which the banks are able to borrow overnight funds from RBI against the approved government securities.
- MSF is an overnight liquidity support provided by RBI to commercial banks with a higher interest rate over the repo rate.

Note:

- Usually, when banks need short term loans from the RBI, they pledge their security holdings that is above the SLR holdings with the RBI to get one day loans under repo.
- Under MSF, a bank can borrow one-day loans form the RBI, even if it doesn't have any eligible securities excess of its SLR requirement (maintains only the SLR).
- Banks can borrow from the RBI up to 1 % of their Net Demand and Time Liabilities or liabilities (or deposits) under MSF (increased to 2% later).
- Minimum request size: Requests will be received for a minimum amount of Rs. one crore and in multiples of Rs. one crore thereafter.

Bank Rate

- Bank rate is the rate of interest implemented by RBI when it lends money to a public sector bank on a long term basis, i.e. from a period ranging from 90 days to 1 year.
- Under this definition, Bank Rate and Repo Rate seem to be similar terms because both are the interest rates at which RBI lends money to banks.
- Bank rate is also referred to as the discount rate and is the rate of interest which a central bank charges on the loans and advances to a commercial bank.

Note:

- However, the Repo Rate is a short-term measure and refers to short-term loans used for controlling the amount of money in the market, whereas Bank Rate is a long-term measure and is governed by the long-term monetary policies of the RBI.

Basis Points - BPS is an acronym for basic points is used to indicate changes in rate of interest and another financial instrument. 1 BASIC POINT IS EQUAL TO 0.01%. So, when we say that repo rate has been increased by 25 bps, it means that the rate has been increased by 0.25%.

Qualitative Measures

These measures can affect money supply in a specific sector of economy:

- MARGIN REQUIREMENT- This refers to difference between the securities offered and amount borrowed by bank.
- RATIONING OF CREDIT- with this tool RBI can controls the credit granted and allocated by commercial banks.
- MORAL SUASION- By this Central Bank may prohibit or dissuade commercial banks to deal in speculative business.
- DIRECT ACTION- The Central Bank may take direct action against commercial banks that violate the rules, orders or advice of central bank.

Marginal Cost of funds-based Lending Rate (MCLR) – Before the execution of MCLR rate, there was the method to decide the interest rate for loans. This rate is called the Base Rate.

- Now, all loans (except few) are MCLR (**Marginal Cost of Funds based Lending Rate)** based. This method has replaced the **base rate system**.
- The MCLR is aimed at bringing uniformity among BRs of banks so that they will be more sensitive to any changes in policy rates of the RBI like Cash Reserve Ratio (CRR), Statutory Liquidity Ratio (SLR), etc.
- MCLR - It is the **minimum interest rate** of a bank below which it cannot lend.
- This method of fixing interest rates for advances was introduced by the RBI with effect from **April 1, 2016.**

Base Rate

• It was introduced on 1 July 2010 by the RBI.

• It replaced the benchmark prime lending rate (BPLR), the interest rate which commercial banks charged their most credit worthy customer.

Monetary Policy Committee - Govt**.** appoints monetary policy committee to help RBI set interest rates.

- The Monetary Policy Committee (MPC) is a committee of the central bank — Reserve Bank of India, headed by its Governor.
- It was set up by amending the RBI Act after the government and RBI agreed to task RBI with the responsibility for price stability and inflation targeting.
- The RBI and the government signed the Monetary Policy Framework Agreement on February 20, 2015.

Composition of MPC -

- The MPC have six members.
- Three each nominated by the government and the RBI and each member have one vote.
- While the majority voice of the committee will be final in deciding the interest rates and the RBI will have to accept the verdict, the governor gets a casting vote in case of tie.
- **Chairman** of the Monetary Policy Committee is Governor of RBI. **Shaktikanta Das** is the present chairman of MPC.
- The committee will be guided by the consumer inflation target the government has set in discussion with the RBI — 4% with a margin of two percentage points for the five years ending March 2021.

Banking sector

The Indian banking sector is broadly classified into **scheduled banks and non-scheduled banks**. The scheduled banks are those which are included under the 2nd Schedule of the Reserve Bank of India Act, 1934.

- The scheduled banks are further classified into: nationalised banks; State Bank of India and its associates; Regional Rural Banks (RRBs); foreign banks; and other Indian private sector banks.
- The term commercial banks refer to both scheduled and non-scheduled commercial banks which are regulated under the Banking Regulation Act, 1949.

Nationalization - Nationalization is the process of taking a private industry or private assets into public ownership by a national government or state.

- **14 commercial banks were nationalized in 19th July, 1969**. Smt. Indira Gandhi was the Prime Minister of India, during in 1969. These were –

1. Central Bank of India
2. Bank of India
3. Punjab National Bank
4. Bank of Baroda
5. United Commercial Bank
6. Canara Bank
7. Dena Bank
8. United Bank
9. Syndicate Bank
10. Allahabad Bank
11. Indian Bank
12. Union Bank of India
13. Bank of Maharashtra
14. Indian Overseas Bank

Six more commercial banks were nationalized in April 1980. These were:

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

Meanwhile on the recommendation of **M. Narsimhan committee, RRBs (Regional Rural Banks)** were formed on Oct 2, 1975. The objective behind the formation of RRBs was to serve large unserved population of rural areas and promoting financial inclusion.

Public Sector Banks

- Public Sector Banks (PSBs) are banks where a majority stake (i.e. more than 50%) is held by a government.

Private Banks

- The private-sector banks in India represent part of the Indian banking sector that is made up of both private and public sector banks.
- The "private-sector banks" are banks where greater parts of stake or equity are held by the private shareholders and not by government. **For ex –** ICICI Bank, HDFC Bank, Axis Bank, etc.
- The minimum capital requirement for to set up Private Bank is Rs. 500 crore.
- At present, the aggregate foreign investment limit is 74 per cent.

Regional Rural Banks

- Regional Rural Banks are local level banking organizations operating in different States of India.
- They have been created with a view to serve primarily the rural areas of India with basic banking and financial services.
- The Government of India, the concerned State Government and the bank, which had sponsored the RRB contributed to the share capital of RRBs in the proportion of **50%, 15% and 35%, respectively**.

Domestic Systemically Important Banks (DSIBs)

- The Reserve Bank of India released the list of Domestic Systemically Important Banks (D-SIBs) on 14th March 2019.
- As per the notification, SBI, ICICI Bank, and HDFC Bank continue to be identified as Domestic Systemically Important Banks (D-SIBs), under the same bucketing structure as last year.
- D-SIB-Domestic Systemically Important Banks – These banks are identified by Central Bank of the country. The advantages of being listed as DSIB:
    - The bank would need to fulfil with higher capital requirements.
    - The bank could now get bulk funds from investors as they would feel secure because they are 'too big to fail' status.

Too big to fail: It means some banks, or some financial institutes are financially So big and their loss hits the economy of the country. Hence, the government supports these institutions

- The Reserve Bank had announced State Bank of India and ICICI Bank Ltd. as D-SIBs on August 31, 2015, and August 25, 2016, respectively.
- On March 31, 2017, the Reserve Bank had announced State Bank of India, ICICI Bank Ltd. and HDFC Bank Ltd. as D- SIBs on September 04, 2017.

NABARD

- NABARD was established on the recommendations of Shivaraman Committee on 12 July 1982 to implement the National Bank for Agriculture and Rural Development Act 1981.
- It was dedicated to the service of the nation by the late Prime Minister Smt. Indira Gandhi on 05 November 1982.
- NABARD is the regulator of the Financing Rural Development sector in India.
- It was set up with an initial capital of Rs.100 crore, its' paid up capital stood at Rs.10,580 crore as on 31 March 2018.
- NABARD is fully owned by Government of India.
- Its headquarters located in Mumbai.
- Present Chairman is **Dr. Harsh Kumar Bhanwala.**

National Housing Bank (NHB)

- National Housing Bank (NHB) was set up on 9 July 1988 under the National Housing Bank Act, 1987.
- NHB is an apex financial institution for housing.
- NHB has been established with an objective to operate as a principal agency to promote housing finance institutions both at local and regional levels and to provide financial and other support incidental to such institutions and for matters connected therewith.
- NHB is the regulator for housing finance companies.
- NHB is set up by on the recommendations of the Dr C. Rangarajan committee.
- NHB is fully owned by the Government of India.
- Its headquarters located in New Delhi.
- Present MD & CEO is **Dakshita Das.**

Note:
- In April 2019, the Reserve Bank has sold its entire stakes in the National Housing Bank (NHB) and the National Bank for Agriculture & Rural Development (Nabard) to the government for Rs 1,450 crore and Rs 20 crore, respectively.
- With this divestment, the government now holds a 100 per cent stake in both these financial institutions.

SEBI

- Securities and Exchange Board of India (SEBI) is the regulator for the Securities and Capital Market in India.
- Head office located in **Mumbai**.
- It was established by the Government of India in 1988.
- It became an autonomous body by the Government of India on 12 May 1992 and given statutory powers in 1992 with SEBI Act 1992 being passed by the Indian Parliament.
- **Ajay Tyagi** is the present Chairman of SEBI.
- **Note:** The Forward Markets Commission (FMC) is the chief regulator of commodity futures markets in India was merged with the Securities and Exchange Board of India (SEBI) on 28 September 2015.

SIDBI

- Small Industries Development Bank of India was set up in 1990 through an act of parliament.
- It was incorporated initially as a wholly owned subsidiary of IDBI.
- Now the SIDBI is an independent body.
- SIDBI is the regulator of Financing Micro, Small and Medium-Scale Enterprises.
- SEBI headquarters is in Lucknow, Uttar Pradesh.
- Mohammad Mustafa is current Chairman and Managing Director of SIDBI.

Associates / subsidiaries of SIDBI-

(i) Credit Guarantee Fund Trust for Micro and Small Enterprises- provides guarantees to banks for collateral-free loans extended to SME.
(ii) SIDBI Venture Capital Ltd
(iii) SME Rating Agency of India Ltd. (SMERA)- Provides composite ratings to SME.
(iv) ISARC - India SME Asset Reconstruction Company in 2009, as specialized entities for NPA resolution for SME.
(v) MUDRA Bank.

MUDRA Bank

- Micro Units Development and Refinance Agency Bank (MUDRA Bank) is a public sector financial institution in India.
- It provides loans at low rates to micro-finance institutions and non-banking financial institutions which then provide credit to MSMEs.
- It was launched by Prime Minister Narendra Modi on 8 April 2015.

- Along with MUDRA, the PMMY (Pradhan Mantri MUDRA Yojana) was also launched.
- Under the PMMY scheme, everyone from the non-farm income generating sector can seek loans up to Rs. 10 lakhs.

Loan amount offered- The scheme has three categories under which loans are disbursed:

- Shishu – For loan amount up to Rs. 50,000
- Kishore- For loan amount from Rs. 50,001- Rs 5 lakhs
- Tarun- For loan amount more than 5 lakhs and up to Rs 10 lakhs

EXIM Bank

- Export and Import Bank of India, popularly known as the EXIM Bank was set up in 1982.
- It is the principal financial institution in India for foreign and international trade.
- The main function of the Export and Import Bank of India is to provide financial and other assistance to importers and exporters of the country.
- Managing Director- David Rasquinha
- Headquarters- Mumbai

ECGC

- The ECGC Limited (Formerly Export Credit Guarantee Corporation of India Ltd is a company wholly owned by the Government of India based in Mumbai, Maharashtra.
- It provides export credit insurance support to Indian exporters and is controlled by the Ministry of Commerce.
- Government of India had initially set up Export Risks Insurance Corporation (ERIC) in July 1957.
- It was transformed into Export Credit and Guarantee Corporation Limited (ECGC) in 1964 and to Export Credit Guarantee Corporation of India in 1983.
- The present paid-up capital of the company is Rs. 1200 crores and authorized capital Rs.5000 crores.

Priority Sector Lending (PSL)

- Priority Sector means those sectors which the Government of India and Reserve Bank of India consider as important for the development of the basic needs of the country and are to be given priority over other sectors.
- The banks are mandated to encourage the growth of such sectors with adequate and timely credit.
- Priority Sector Lending refers to those sectors of the economy which may not get timely and adequate credit in the absence of this special dispensation.

Priority Sector includes the following categories:

(i) Agriculture
(ii) Micro, Small and Medium Enterprises
(iii) Export Credit
(iv) Education
(v) Housing
(vi) Social Infrastructure
(vii) Renewable Energy
(viii) Others

The targets and sub-targets for banks under priority sector are as follows:

For - Domestic scheduled commercial banks (excluding Regional Rural Banks and Small Finance Banks) and Foreign banks with 20 branches and above

- **Total Priority Sector -** 40 per cent of Adjusted Net Bank Credit or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher.

- **Agriculture sector** - 18 per cent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher.
- **Micro Enterprises** - 7.5 percent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher.
- **Advances to Weaker Sections** - 10 percent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher

- **Loan limit for education under priority sector –** Loans to individuals for educational purposes including vocational courses upto Rs.10 lakh for studies in India and Rs. 20 lakh for studies abroad are included under priority sector.
- **Limit for housing loans under priority sector** – The housing loan limits for Priority Sector Lending eligibility is Rs. 35 lakh rupees in metropolitan and Rs. 25 lakh rupees in other centres. (same in case for RRBs & Small Finance Banks).
- **Limit of loan that can be availed by individual women under PSL -** Individual women, beneficiaries can take up to ₹ 1 lakh per borrower.

Non-bank financial companies

- Non-bank financial companies (NBFCs) are financial institutions that provide banking services without meeting the legal definition of a bank, i.e. one that does not hold a banking license.
- These institutions typically are restricted from taking deposits from the public depending on the jurisdiction.
- A Non-Banking Financial Company (NBFC) is a company registered under the Companies Act, 1956.

NBFCs are doing functions similar to banks. What is difference between banks & NBFCs?
NBFCs lend and make investments and hence their activities are similar to that of banks; however there are a few differences as given below:
i. NBFC cannot accept demand deposits;
ii. NBFCs do not form part of the payment and settlement system and cannot issue cheques drawn on itself;
iii. Deposit insurance facility of Deposit Insurance and Credit Guarantee Corporation is not available to depositors of NBFCs, unlike in case of banks.

Systemically important NBFCs - NBFCs whose asset size is of ₹ 500 cr or more as per last audited balance sheet are considered as systemically important NBFCs.

Anti-Money Laundering

Money laundering is the process by which the origin of funds gained by illegal means is concealed and made to appear such that they have been derived from legitimate sources and inserting them back into economic circulation.

- Money laundering also covers financial transactions where the end use of funds goes for financing terrorism irrespective of the source of the funds.

The prevention of money laundering act, 2002 was enacted to prevent money laundering and deal with those who are guilty of money laundering. The PMLA seeks to combat money laundering in India and has three main objectives:
(i) To prevent and control money laundering
(ii) To confiscate and seize the property obtained from the laundered money; and
(iii) To deal with any other issue connected with money laundering in India.
Case of AML – DMK's Kanimozhi, A Raja and Dayalu Ammal were charged under anti-money-laundering act for their involvement in 2G scam.

Financial Inclusion

Financial inclusion is a concept of making available banking/financial services to a vast section of low income groups and weaker sections at an affordable price.

- The objective of financial inclusion is to provide the service of basic banking products to the unserved masses of the country, aiming towards inclusive economic growth.

Regulatory steps taken by Reserve Bank of India in this regard-

- BSBDA (Basic Savings Bank Deposit Account)
- Relaxation in KYC guidelines
- Use of extensive technology in banking
- Appointing business correspondents and business facilitators
- Opening of branches in unbanked rural areas
- Licensing of differentiated banks like Payment Bank and Small Bank

Schemes launched by Government of India to promote financial inclusion are-

- **PMJDY (Pradhan Mantri Jan Dhan Yojana)** – The main features of this scheme are
  (i) The slogan of the scheme is “Mera Khata – Bhagya Vidhaata”
  (ii) To make the scheme more attractive, the government has decided to double the overdraft facility from **Rs 5,000 to Rs 10,000.**
  (iii) Under the scheme, age entitlement has been relaxed to 18-65 years, and accident insurance of accounts after 28 August will have a limit of **Rs 2 lakh**.

- **Pradhan Mantri Suraksha Bima Yojana** – The main features of this scheme are
  (i) For personal accident insurance
  (ii) Age group: 18-70 years
  (iii) Sum assured: Rs 2 lakh, while premium: Rs 12 per annum

- **Pradhan Mantri Jeevan Jyoti Bima Yojana** – The main features of this scheme are
  (i) For life insurance
  (ii) Age group: 18-50 years
  (iii) Sum assured: Rs 2 lakh, while premium: Rs 330 per annum

- **Atal Pension Yojana** – The main features of this scheme are
  (i) For pension purpose
  (ii) social security scheme
  (iii) all accounts opened after August 28, 2018 will have an accident insurance limit of Rs 2 lakh, double the earlier Rs 1 lakh limit.
  (iv) the overdraft facility of the scheme increased from Rs 5,000 to Rs 10,000.
  (iii) Age group: 18-40 years
  (iii) Fixed pension: Rs 1000-5000 per month at age of 60 years.

Financial Inclusion Fund: Reserve Bank of India recently created a new Financial Inclusion Fund (FIF) **with funding of Rs 2000 Crore** for expanding the reach of banking services. The new Financial Inclusion Fund is created by merging Financial Inclusion Fund and Financial Inclusion Technology Fund into a single Fund — Financial Inclusion Fund (FIF). **The new FIF will be maintained by NABARD.**

DeMat Account

- **DeMat account** is nothing but a dematerialized account. If one has to save money or make cheque payments, then he/she needs to open a bank account. Similarly, one needs to open a DeMat account if he/she wants to buy or sell stocks.
- Thus, DeMat account is similar to a bank account wherein the actual money is being replaced by shares.
- In India, a DeMat account is a type of banking account that dematerializes paper-based physical stock shares.

- The DeMat account is used to avoid holding of physical shares: the shares are bought as well as sold through a stock broker.

Derivative

- A derivative is a financial contract that derives its value from another financial product/commodity (say spot rate) called underlying (that may be a stock, stock index, a foreign currency, a commodity).
- Forward contract in foreign exchange transaction, is a simple form of a derivative.

Bancassurance

Bancassurance means distribution of financial products particularly the insurance policies (both the life and non-life), also called referral business, by banks as corporate agents, and through their branches located in different parts of the country.

FII

FII (Foreign Institutional Investor) used to denote an investor, mostly in the form of an institution.

An institution established outside India, which proposes to invest in Indian market, in other words buying Indian stocks.

- FII's generally buy in large volumes which has an impact on the stock markets.
- Foreign Institutional Investors includes pension funds, mutual funds, Insurance Companies, Banks, etc.

FDI

FDI (Foreign Direct Investment) occurs with the purchase of the "physical assets or a significant amount of ownership (stock) of a company in another country in order to gain a measure of management control" (Or) A foreign company having a stake in a Indian Company.

Fiscal Policy

It is the process of policy decision making in relation to the financial structure of the government receipts and payments. It includes the action strategies on tax policy, revenue and expenditure, loans and borrowing, deficit financing etc. Primarily it is the budgetary policy of the Govt. and is reflected through the annual budget formulation.

The Objective of the Fiscal Policy are –

- Mobilsation of resources for meeting the financial requirements for economic growth.
- Improve savings & investment rate to improve the capital formation.
- To initiate steps to remove poverty and unemployment and improve the standard of living of the people.
- To reduce regional disparities.

Fiscal Deficit - It is the difference between the government's total revenue/ receipts (excluding borrowings) and total expenditure.

- **Fiscal deficit =** Total Expenditure - Total receipts (excluding borrowings).

Revenue deficit- It defines that, where the net amount received (by taxes & other forms) fails to meet the predicted net amount to be received by the government.

- A mismatch in the expected revenue and expenditure can result in revenue deficit.
- Revenue deficit arises when the governments actual net receipts is lower than the projected receipts.

Note:

- Revenue deficit = Revenue expenditure - Revenue receipts.

Effective Revenue Deficit –

- Effective Revenue Deficit is the difference between revenue deficit and grants for creation of capital assets. Effective Revenue Deficit signifies that amount of capital receipts that are being used for actual consumption expenditure of the Government.
- Effective Revenue deficit is a new term introduced in the Union Budget 2011-12.

Budget Deficit – The Budget Deficit is the financial situation wherein the expenditures exceed the revenues. The Budget Deficit generally relates to the government's expenditure and not the business or individual's spending.

Primary deficit: It is the fiscal deficit less interest payments made by the government on its earlier borrowings.

- The Primary Deficit is the difference between the fiscal deficit of current year and the interest paid on the previous borrowings. Thus, primary deficits are government's borrowings exclusive of interest payment.
- Primary Deficit = Fiscal Deficit – Interest payments on the previous borrowings

National Income

National Income is the money value of all goods and services produced in a country during the year. Thus, it is the net result of all economic activities of any country during a period of one year and is valued in terms of money.

GDP

The Gross Domestic Product (GDP) is an estimated value of the total worth of a country's production and services, within its boundary, by its nationals and foreigners, calculated over the course of one year. Hence, GDP = Consumption + Investment + Government Spending + Exports –Imports.

GDP deflator

The Gross Domestic Product (GDP) deflator is a measure of general price inflation. It is calculated by dividing nominal GDP by real GDP and then multiplying by 100.

- Nominal GDP is the market value of goods and services produced in an economy, unadjusted for inflation (It is the GDP measured at current prices).
- Real GDP is nominal GDP, adjusted for inflation to reflect changes in real output (It is the GDP measured at constant prices).

GNP

The Gross National Product (GNP) is an estimated value of the total worth of production and services, by citizens of a country, on its land or on foreign land, calculated over the course of one year. Hence, GNP = GDP + NR (Net income inflow from assets abroad or Net income Receipts) - NP (Net Payment outflow to foreign assets)

Note:

- GNP measures the output of a country's residents regardless of the location of the actual underlying economic activity.
- Income from overseas investments by a country's residents counts in GNP, and foreign investment within a country's borders does not. This is in contrast to GDP which measures economic output and income based on the location rather than nationality.

NNP

Net national product (NNP) is the market value of a nation's goods and services minus depreciation (often referred to as capital consumption).

- The formula for NNP is: NNP = Market Value of Finished Goods + Market Value of Finished Services – Depreciation
- Alternatively, NNP can be calculated as: NNP = Gross National Product – Depreciation

Depreciation

The monetary value of an asset decreases over time due to use, wear and tear or obsolescence. This decrease is measured as depreciation.
Note:

- Depreciation, i.e. a decrease in an asset's value, may be caused by a number of other factors as well such as unfavorable market conditions, etc. Machinery, equipment, currency are some examples of assets that are likely to depreciate over a specific period of time.
- Opposite of depreciation is appreciation which is increase in the value of an asset over a period of time.

Inflation

Inflation is as an increase in the price of bunch of Goods and services that projects the Indian economy. An increase in inflation figures occurs when there is an increase in the average level of prices in Goods and services.

- Inflation happens when there are fewer Goods and more buyers; this will result in increase in the price of Goods, since there is more demand and less supply of the goods.

Deflation

Deflation is the continuous decrease in prices of goods and services. Deflation occurs when the inflation rate becomes negative (below zero) and stays there for a longer period.

- Deflation increases the real value of money and this allows one to buy more goods with the same amount of money.

Note:

- In simple words we can say that Inflation refers to the increase in the price of the goods while deflation means the decrease in the price of the goods.

Disinflation

Disinflation occurs when price inflation slows down temporarily. The rate of inflation at a slower rate is called disinflation.
Note:

- It means the rate of inflation remains in positive region, but it was reduced compared to last term. Example : from 4 % to 2 %.
- Unlike deflation, this is not harmful to the economy because the inflation rate is reduced marginally over a short-term period.
- Unlike inflation and deflation, disinflation is the change in the rate of inflation.
- Deflation is the drop in general price levels in an economy, while disinflation occurs when price inflation slows down temporarily.
- Disinflation can be caused by a recession or when a central bank tightens its monetary policy.

Stagflation

Stagflation is a situation in which the inflation rate is high, the economic growth rate slows, and unemployment remains steadily high.

- Causes attributed to stagflation are a supply shock and poor government policies.
- Supply shocks on the prices of goods due to rise in price of crude oil, low workers output, and incorrect predictions result in stagflation.

Balance of Payments (BOP)

The balance of payments (BOP) is a statement of all transactions made between entities in one country and the rest of the world over a defined period of time, such as a quarter or a year.

- Balance of Payment Account is a summary of international transactions of a country for a given period' (i.e., financial year).
- These transactions consist of imports and exports of goods, services and capital, as well as transfer payments, such as foreign aid and remittances.
- It records a country's transactions with the rest of the world involving inflow and outflow of foreign exchange.
- In short BOP Account is a summary statement of transactions in foreign exchange in a year.

Balance of Trade (BOT)

Balance of trade is the difference between country's exports and imports.
Note:

- A country that imports more goods and services than it exports in terms of value has a trade deficit.
- Conversely, a country that exports more goods and services than it imports has a trade surplus.
- The formula for calculating the BOT can be simplified as the total value of imports minus the total value of exports.

Disinvestment

A deliberate sale of a part of the capital stock of a company to raise resources and change the equity and/or management structure of a company.

- The selling of the government stake in public sector undertakings.

Mutual funds

Mutual funds are investment companies that pool money from investors at large and offer to sell and buy back its shares on a continuous basis and use the capital thus raised to invest in securities of different companies.

- The mutual fund will have a fund manager that trades the pooled money on a regular basis. The net proceeds or losses are then typically distributed to the investors annually.

Association of Mutual Funds in India - AMFI is a regulator of Mutual Funds in India.

- Established on August 22, 1995
- Chairman - Nimesh Shah
- Headquarters- Mumbai
- The organisation aims to develop the mutual funds market in India.

NPA

An asset (loan), including a leased asset, becomes non-performing when it stops generating income for the bank.

Note: Once the borrower has failed to make interest or principle payments for 90 days the loan is considered to be a non-performing asset. It had been decided to adopt the '90 days' overdue' norm for identification of NPA, from the year ending March 31, 2004.

The conditions under which an asset becomes an NPA are as follows:
1. If interest or installment or both of principal remain overdue for a period of **more than 90 days** in respect of a term loan.
2. If Overdraft/ Cash Credit for an account remains **'out of order'**.
3. If bill remains overdue for a period of **more than 90 days** in the case of bills purchased and discounted.

4. If installment of principal or interest **remains overdue for two crop seasons for short duration crops / one crop season for long duration crops.**

ASSET CLASSIFICATION: RBI has classified nonperforming assets into the following **three categories** based on the period for which the asset has remained nonperforming and the realisability of the dues:

- **Substandard Assets**: With effect from March 31, 2005, a substandard asset is one, which has remained NPA for **a period less than or equal to 12 months.**
- **Doubtful Assets:** With effect from March 31, 2005, an asset is classified as doubtful if it has remained in the sub-standard category for a **period of 12 months**.
- **Loss Assets**: A loss asset is one where loss has been identified by the bank or internal or external auditors or the RBI inspection but the amount has not been written off wholly.
- In other words, such an asset is considered **uncollectible** and of such little value that its continuance as a bankable asset is not warranted although there may be some rescue or recovery value.

Reasons for NPA:

- ✓ **Macroeconomic situations:** When a country is not growing on expected lines i.e. **GDP i**s not growing, **no demand fo**r goods, then industry suffers and not able to payback.
- ✓ **Increased Interest Rate**: The loan is taken at a time when interest rates were much higher than the present interest rate.
- ✓ When some **sectors of the economy are doing bad** like Infrastructure, Power due to Land acquisition and forest related issues and environment clearances.
- ✓ **Willful defaulting**: When one is able to pay but is not paying like Vijay Mallya.

Now **what does the Bank / FIs do?**

Firstly the Bank /FIs inspect whether there are **genuine reasons or not** for non-repayment of loans. Here genuine reasons include factors that are beyond one's control and certain internal, external reasons. In this case, for the revival of the corporates as well as for the safety of the money lent by the banks and FIs, timely support through restructuring is done. This system of restructuring of loans is called as **Corporate Debt Restructuring.**

What **if the case is not genuine?** In this case Bank / FIs may

- refer the case to Debt Recovery Tribunal (DRT).
- refer to Asset Reconstruction Companies (ARC) as per SARFAESI Act, 2002.
- file winding up petition in the court of law.
- file criminal case against the willful defaulter.

Let's first take the genuine case:

1. Corporate Debt Restructuring:

- It has been implemented by RBI from August 2001.
  - It covers only multiple banking accounts or syndicated / consortium loan accounts of corporate borrowers where outstanding exposure is Rs 10 crore or more.
  - The accounts are eligible for consideration under the CDR system provided at least 75% of the creditors (by value of loan) and 60% of creditors (by number of loan) agree to the proposal.

Note: The scheme will not apply to accounts involving only one financial institution or one bank..

In case if the reason of non-repayment is not genuine then Bank / FIs can have following options:

2. Debt Recovery Tribunal (DRT):

- These are established in various cities **under "Recovery of Debts due to Banks and Financial Institutions (RDDBF) Act, 1993".**

- Banks / FIs can **file an application with DRT** or recover dues from persons / companies.
- As per the act the issue is to be **settled in 6 months.**
- In this case the **success rate is around 20-30%.**

3. Asset Reconstruction Companies (ARC):

- This is formed under the "**Securitization and Reconstruction of financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002".**
- It empowers the Banks & FIs to recover NPA**s without the intervention of the court.**
- It was brought to **overcome the inefficiency of DRTs.**
- Under this, Banks / FIs have the **power to sell their Bad loans.**
- The loans which are of **Rs 1 lakh and more** fall in this category.
- **RBI has the power to issue licence to ARCs.** Asset Reconstruction Company (India) Ltd is the first ARC established in India.

BASEL III Norms

The Basel committee on Banking Supervision (BCBS) was formed in 1974 by a group of central bank governors of G-10 countries. Later on the committee was expanded to include members from nearly 30 countries. BCBS in 1988 released Basel-I accords and subsequently to overcome the loopholes in it Basel –II was released in 2004.

BCBS released a comprehensive reform package in Dec 2010, which is called as Basel –III, a global regulatory framework for more resilient banks and banking systems. These recommendations cover almost all the nations. And it amend the Basel -2 guidelines, also introduces some new concepts and recommendations.
Need For BASEL-3 Worldwide: Banks mainly deals with three kind of risks. These are
(i) Credit risk - It is basically the risk of loss, arising when a borrower is not capable of paying back the loan as promised. Such borrowers are also known as Sub-prime borrowers.
(ii) Market risk - Market risk is the risk that the value of an asset will decrease due to changes in market factors. For Banks, market risk is a risk that the value of 'on' or 'off' balance sheet positions will be adversely affected by movements in equity and interest rate markets, currency exchange rates and commodity prices.

- It is also called "systematic risk" because it relates to factors, such as a recession, that impact the entire market.

(iii) Operational risk - Operational risk is the prospect of loss resulting from inadequate or failed procedures, systems or policies. Employee errors. Systems failures. Fraud or other criminal activity. Any event that disrupts business processes.

Need for Basel –III in INDIA

- **Firstly ,**The most important reason is that as India connects with the rest of the world, and as increasingly Indian banks go abroad and foreign banks come on to our shores, we cannot afford to have a regulatory deviation from global standards. Any deviation will hurt us.

- **Secondly,** if we ought to maintain a low standard regulatory regime this will put Indian banks at a disadvantage in global competition. Therefore, It is becomes important that Indian banks have the cushion provided by this risk management system to withstand shocks from external systems, especially as we deepen our links with the global financial system.

In India, Basel III regulations has been implemented from April 1, 2013 in phases and it will be fully implemented as on **March 31, 2019.**

The pillars of BASEL norms:

- **Capital adequacy requirements**
- **Supervisory review**
- **Market discipline**

Recommendations of Basel –III

- Firstly, Basel -3 recommended that the Capital Adequacy ratio(CAR) be increased to 8% internationally, while in INDIA it is 9%.
- **Capital Adequacy ratio (CAR),** also known as Capital to Risk (weighted) Assets Ratio (CRAR), is a ratio of a bank's capital to its risk.
- Capital is the money a bank receives in exchange for issuing shares. This capital is further classified into two – Tier 1 and Tier 2 capital.

Negotiable Instrument Act, 1881

Negotiable instruments are written orders or unconditional promises to pay a fixed sum of money on demand or at a certain time.

- Negotiable instruments may be transferred from one person to another, who is known as a holder in due course. Upon transfer, also called negotiation of the instrument, the holder obtains full legal title to the instrument.
- Negotiable instruments may be transferred by delivery or by endorsement and delivery.
- For e.g. promissory notes, bills of exchange, cheques, drafts, certificates of deposit are all examples of negotiable instruments.
- Cheque and Demand Draft are defined under **section 6** of the Negotiable Instruments Act, 1881.
  Note:
  (i) Section 6(a) defines 'a cheque in the electronic form'
  (ii) Section 6(b) defines 'a truncated cheque'
- **Section 138** of the Negotiable Instruments Act, 1881, the dishonour of cheque is a criminal offence and is punishable by imprisonment up to two years or with monetary penalty or with both.

Cheque

A cheque is a negotiable instrument that is used for payments and settlements in India. It is an agreement between two organizations to make payments. Following are the types of the cheque:

- **Bearer Cheque -** The bearer cheque is payable to the person specified therein or to any other else who presents it to the bank for payment. However, such cheques are risky, this is because if such cheques are lost, the finder of the cheque can collect payment from the bank.
- **Order Cheque -** It is the one which is payable to a particular person. In such a cheque the word 'bearer' may be cut out or cancelled and the word 'order' may be written. The payee can transfer an order cheque to someone else by signing his or her name on the back of it.
- **Crossed cheque:** When a cheque is crossed, the holder cannot encash it at the counter of the bank. The payment of such cheque is only credited to the bank account of the payee. Crossed cheque is done by drawing two parallel lines across top left corner of the cheque, with or without writing 'Account payee' in the space between the lines.
- **A self cheque:** It is written by the account holder as pay self to receive money in physical form from the branch where he holds his account. This can be alternated by using an ATM card.
- **Post-dated cheque (PDC):** A PDC is a form of a crossed or account payee bearer cheque but post-dated to meet the said financial payment at a future date. The cheque is valid from the date of issue to three months.

- **A Banker's cheque:** A banker's cheque is issued by a bank drawing money from its own funds rather than that from an account holder's. Banker's cheque is issued after the bank verifies the account status of the requestor and the amount is immediately deducted from the customer's account. A banker's cheque cannot be dishonored as in the case of a normal cheque, when an account holder has insufficient funds in his/her account. Though different from a normal cheque it requires clearing too.
- **Stale Cheque** - If a cheque is presented for payment after **three months** from the date of the cheque it is called stale cheque. A stale cheque is not honoured by the bank.

Demand Drafts

A DD is a negotiable instrument similar to a bill of exchange. It is used for effecting transfer of money. A bank issues a DD to a client (Drawer), directing another bank (Drawee) or one its own branches to pay a certain sum to the specified party (Payee) directly without involving the drawing bank after presenting.

Some of the differences between a cheque and a DD are:

- ✓ A cheque is issued by an individual, whereas a DD is issued by a bank.
- ✓ The amount mentioned on the DD is collected by the bank from the drawer prior to drawing the DD, whereas the amount mentioned on the cheque is debited only when the cheque is presented for payment.
- ✓ The payment of cheque can be stopped by the drawer of the cheque, whereas the payment of a DD cannot be stopped.
- ✓ A cheque can bounce or be dishonoured, but a DD cannot be bounced and dishonored because it is already paid. A DD will bounce only when the drawee bank does not have enough funds to honour the cheque.
- ✓ A cheque can be made payable either to a bearer or to order. But a DD is always payable to order of certain person or organization, it cannot be a bearer draft

Cheque Truncation System

Cheque Truncation System (CTS) or Image-based Clearing System (ICS), in India, is a project undertaken by the Reserve Bank of India (RBI) in 2008, for faster clearing of cheques.

Cheque Truncation System (CTS) is a cheque clearing system undertaken by the Reserve Bank of India (RBI) for faster clearing of cheques. Truncation is the process of stopping the physical movement of cheques which is replaced by electronic images and associated MICR line of the cheque.

Advantage of CTS –

- Since there is no physical movement of cheques, there is no fear of loss of cheque in transit.
- Usage of CTS cheques also means quicker clearance, shorter clearing cycle and speedier credit of the amount to your account.
- Depending on whether the cheque is local or outstation, the cheque can get cleared on the same day or within 24 hours.
- The biggest advantage is that CTS-compliant cheques are more secure than old cheques and, hence, less prone to frauds. Also, as the system matures, it is proposed to integrate multiple locations and reduce geographical restrictions in cheque clearing.

Small Finance Banks

The aim of small banks is to increase financial inclusion in the country.
Note:

- The RBI issued a license to the bank under Section 22(1) of the Banking Regulation Act, 1949, to carry on the business of small finance bank (SFB) in India.
- **Committee on Small Banks - Usha Thorat** (former deputy governor, RBI) committee

Other Key guidelines and other conditions to set Small Finance Bank:

- The small bank shall be registered as a public limited company under the Companies Act, 2013.
- The new banks will have to use the words 'small finance banks' in its name.
- Capital requirement - The minimum paid-up capital requirement for small banks is Rs. 100 crore.
- Can provide basic banking activities – The small banks accept deposits as well as can offer loan products. Small banks can accept fixed deposits (FDs), term deposits, recurring deposits (RDs) and any non-resident Indian deposits.
- Promoter's contribution: Promoter contribution would be at least **40 percent for the first five years**. Excess shareholding should be brought down to 40 percent by the end of the fifth year, to 30 percent by the end of 10th year and to 26 percent in 12 years from the date of commencement of business
- Foreign shareholding: The foreign shareholding in the small finance bank would be as per the Foreign Direct Investment (FDI) policy.

- They cannot set up subsidiaries to undertake non-banking financial services activities.
- The maximum loan size and investment limit exposure to single/group borrowers/issuers would be restricted to **15 percent of total capital funds.**
- Loans and advances of up to Rs 25 lakhs, primarily to micro enterprises, should constitute at least 50 percent of the loan portfolio.
- For the first three years, **25 percent** of branches should be in unbanked rural areas.
- For the initial three years, prior approval will be required for branch expansion.
- The small finance banks will be required to extend **75 percent of its Adjusted Net Bank Credit** (ANBC) to the sectors eligible for classification as priority sector lending (PSL) by the Reserve Bank.

List of Small Finance Bank working in India –

Small Finance Bank	Headquarters	Tagline
Capital Small Finance Bank (India's first small finance bank)	Jalandhar, Punjab	Vishwas Se Vikas Tak
Equitas Small Finance Bank	Chennai, Tamil Nadu	Its Fun Banking
Utkarsh Small Finance Bank	Varanasi, UP	Apki Umeed Ka Khata
Suryoday Small Finance Bank	Belapur, Navi Mumbai	A Bank of Smiles
Ujjivan Small Finance Bank	Bengaluru, Karnataka	Bharosa, Aap Ke Bharose Par
ESAF Small Finance Bank	Thrissur, Kerala	Joy of Banking
Au Small Finance Bank	Jaipur, Rajasthan	Chalo Aage Badhe
Fincare Small Finance Bank	Bengaluru, Karnataka	Banking on More
North East Small Finance Bank	Guwahati, Assam	Your Door Step Banker
Jana Small Finance Bank	Bengaluru, Karnataka	Paise Ke Kadar

Payment Banks

The main objective of payment banks is to increase financial inclusion in the country via a primary focus on domestic payments services by providing small savings accounts.

List of Payments Bank working in India –

Payments Bank	Headquarters	Joint venture
Airtel Payment Bank	New Delhi	Bharti Airtel & Kotak Mahindra Bank
Paytm Payment Bank	Noida, Uttar Pradesh	Paytm
India Post Payment Bank	New Delhi	100% owned by Govt. of India.
Fino Payment Bank	Mumbai, Maharashtra	Fino has partnered with the ICICI Bank
Aditya Birla Idea Payment Bank	Mumbai, Maharashtra	Idea and Vodafone
Jio Payment Bank	Mumbai, Maharashtra	Reliance and SBI

Committee on Payment Banks - Dr. Nachiket Mor committee.

Key Points:

- ✓ **Capital requirement** - The minimum paid-up capital requirement for payments banks **is Rs. 100 crore.**
- ✓ The Reserve Bank grants a license for commencement of banking business under Section 22(1) of the Banking Regulation Act, 1949.

- ✓ RBI's "in-principle" nod will be valid for a period of 18 months, during which time the applicants have to comply with the requirements under the Guidelines and fulfill the other conditions as may be stipulated by the Reserve bank.
- ✓ As per the guidelines, the promoters' initial minimum contribution will be at least 40 % of the minimum capital, to be locked in for a period of 5 years.
- ✓ The payments bank will need to invest 75 percent of its funds in government securities.
- ✓ Payments banks can open small savings accounts and accept **deposits of up to Rs.1 lakh** per individual customer and provide remittance services. Hence, the balance at the close of business on any day should not exceed Rs.1 lakh per customer.
- ✓ Payments banks can issue debit cards but they are not eligible to provide credit card facilities.
- ✓ Payments Banks are allowed to set up their own ATMs (automated teller machines).
- ✓ Payments banks will have to invest in government securities with a maturity of up to 1 year.

Financial Markets

Financial Market is the market where borrowing and lending of funds of all individual, institutions, companies and of the government take place.

In India, Financial Market can be divided into two main categories-
(i) Money Market (ii) Capital Market.

Money Market

- It is also known as "Short Term Market" because here trading is done between 1 day to 365 days.
- In this market, trading is done for a small span of time so "Risk Factor" is very low as well as "returns are very less".
- Short–term instrument like - Treasury bills, Commercial papers, Certificates of deposits, etc are issued and traded in this market.

Note:

- The money market provides facilities to the banks and primary dealers (PDs) to lend or borrow money when there is a mismatch of funds.
- Scheduled Commercial Banks (except RRB), Co-operative Banks and Primary Dealers participates in these markets.
- In Call and Notice Money both the borrowers and lenders need to maintain a current account with RBI because this trading happens for very small tenure. This borrowing and lending are on unsecured basis which are –

    1. **Call Money** - When money is lend or borrowed only for 1 day.
    2. **Notice Money** - Where money is borrowed or lend for the period between 2 days and 14 days.
    3. **Term Money** – I Where money is borrowed or lend for a period exceeding 14 days.

Treasury Bills (T bills)

- Treasury Bills are instruments of short term borrowing by the Central/State govt.
- They are promissory notes issued at discount and for a fixed period.
- At present, the Government of India issues three types of treasury bills through auctions, namely, **91-days, 182-days and 364-days**.
- There are no treasury bills issued by State Governments.
- **Amount -** Treasury bills are available for a minimum amount of **Rs. 25,000 and in multiples of Rs. 25,000**.
- Treasury bills are issued at a discount and are redeemed at par.

Commercial Paper

- Commercial Paper (CP) is an unsecured money market instrument issued in the form of a promissory note.
- It was introduced in India in 1990.
- Corporates, primary dealers (PDs) and the **All-India Financial Institutions** (FIs) are eligible to issue CP.

All-India Financial Institutions

- Export - Import Bank of India (Exim Bank)
- National Bank for Agriculture and Rural Development (NABARD)
- Small Industries Development Bank of India (SIDBI)
- National Housing Bank (NHB)
- Export Credit Guarantee Corporation of India (ECGC)

- **Minimum & maximum period of maturity prescribed for CP -** CP can be issued for maturities between a minimum of **7 days and a maximum of up to one year** from the date of issue.
- **Denominations -** CP can be issued in denominations of **Rs. 5 lakh or multiples thereof**.
- **Who can invest in CP?** Individuals, banking companies, other corporate bodies (registered or incorporated in India) and unincorporated bodies, Non-Resident Indians (NRIs) and Foreign Institutional Investors (FIIs) etc. can invest in CPs.

Certificate of Deposits

- Certificate of Deposit (CD) is a negotiable money market instrument which was introduced in 1989.
- CD is issued in dematerialised form or as a Usance Promissory Note against funds deposited at a bank or other eligible financial institution for a specified time period.

Who can issue CD – CDs can be issued by (i) scheduled commercial banks {excluding Regional Rural Banks and Local Area Banks}; and (ii) select All-India Financial Institutions (FIs) that have been permitted by RBI.

- **Minimum Size of Issue and Denominations -** Minimum amount of a CD should be **Rs.1 lakh**, i.e., the minimum deposit that could be accepted from a single subscriber should not be less than Rs.1 lakh, and in multiples of Rs. 1 lakh thereafter.
- **Maturity -** The maturity period of CDs issued by banks should not be less than **7 days and not more than one year**, from the date of issue.

Capital Market

- A capital market is also known as “Long-Term Market" because here the trading is more than a year.

Capital market consists of:

(i) Primary Market - It is a market which deals with deals with trading & issuance of stocks and other securities.

- For e.g. - Initial Public Offering (IPO) issued by any company.
- In the primary market, securities are directly purchased from the issuer.

(ii) Secondary Market - It is a market which comprises of equity and debt markets. It deals with the exchange of existing or previously- issued securities.

- Markets such as Bombay Stock Exchange (BSE), National Stock Exchange (NSE) are secondary markets.
- On the secondary market, small investors have a better chance of buying or selling securities, because they are no longer excluded from IPOs due to the small amount of money they represent.

Bond

- A “Long-term debt instrument” issued by Government/ company/ banks to raise money from the market have mentioned maturity period and interest rate depending upon amount is known as Bond.
- A bond, also known as a fixed-income security, is a debt instrument created for the purpose of raising capital.

- They are essentially loan agreements between the bond issuer and an investor, in which the bond issuer is obligated to pay a specified amount of money at specified future dates.

Types of the bonds

(i) Corporate Bonds - A corporate bond is a debt security which is issued by a company and sold to the investors.

- Company's assets are may be used as collateral in some cases.
- The backing for the bond is usually depending upon the payment ability of the company.
- The corporate bonds have considered higher risk than governmental bonds.

(ii) Convertible Bonds- A convertible bond is a debt security that can be converted into predetermined amount of underlying company's equity.

- Convertible bonds are issue to avoid the negative impression of company's actions.

(iii) Government Bonds- Government Bonds are those bonds which are issued by the government to support government spending. These bonds are more secure than corporate bonds.

(iv) Masala Bonds - Masala Bonds are the rupee denominated borrowings by Indian entities in overseas market.

- The word "Masala" is given by the IFC (International Finance Corporation) to represent Indian culture and cuisine. First Masala Bond was issued by the IFC (International Finance Corporation) when it raised Rs 1000 crore bond to fund infrastructure projects in India.
- As the Masala bonds are Indian Rupee denominated bonds, it is regulated by the Reserve Bank of India.

Issuers of Masala Bonds

- RBI has issued guidelines allowing following entities to issue rupee denominated bond overseas.
- Indian Companies (Blue Chip Companies)
- NBFCs (Non Banking Finance Companies)
- Infrastructure Investment Trust
- Real Investment Trust

(v) Green Bonds - A Green Bond is a tax-exempt bond which is issued for the investment in the green projects or for the development of Brownfield sites.

- Brownfield Sites are the sites which are underutilized, have abandoned buildings or underdeveloped.
- Issuers of Green Bonds: Green Bonds are issued by following multilateral agencies: World Bank, Corporation, Government agencies, Municipalities.
- In India Green Bonds are regulated by SEBI (Securities Exchange Board of India).

Debenture

- A debenture is a medium- to long-term debt instrument used by large companies to borrow money, at a fixed rate of interest.

Equity investment

- A company invests investor amount, in shares of other listed company, in order to maximize return is known as the equity investment.

Dividend

- A sum of money paid regularly (quarterly, annually) by a company to its shareholders out of its profits (or reserves) is known as a dividend.
- A dividend can be paid (a) monthly (b) Quarterly.

Outstanding shares

- The total number of shares owns by a shareholder, of a company, for a specific period of time, is known as Outstanding shares.

Preference Shares

- Preference Shares are shares of company's stock with dividends that are paid out to shareholders before common stock dividends are issued.

Liabilities

- The state in which any company is legally responsible for expenses like expenses on (a) operating (b) employees (c) maintenance of company and fund offered to the public (in this case) are known as Liabilities.

Banking Ombudsman Scheme

- It is a scheme which allows bank customers resolve complaints relating to services rendered by banks.
- It was introduced under Section 35A of the Banking Regulation Act, 1949 by RBI with effect from 1995.
    - Banking Ombudsman is a senior official appointed by RBI to redress customer complaints against deficiency in certain banking services.
    - All Scheduled Commercial Banks, RRBs & Scheduled Primary Co- Op Banks are covered under the Scheme.
    - With the amendment, from 1 July 2017, the banking ombudsman scheme will include –
    - **i.** sale of insurance, mutual funds and other third-party investment products by banks
    - **ii.** mobile and online banking services.
    - Now, a bank customer also files a complaint to Banking Ombudsman on following issues **–**
    - **i. Mutual Fund & Insurance policy -** wrongly sold third party products such as mutual fund schemes & insurance policies.

Some aspects related to the Scheme:

- **No fee** is required for filing and resolving customers' complaints.
- **Increase in compensation amount:** The RBI has increased the compensation limit **from Rs10 lakh to Rs20 lakh.**
- If a complaint is not settled by an agreement within a period of **one month**, the Banking Ombudsman proceeds further to pass an award.
- If one is not satisfied with the decision passed by the Banking Ombudsman, one can approach the appellate authority against the Banking Ombudsman's decision.
- The Appellate Authority is vested with a **Deputy Governor of the RBI.**
- If one is aggrieved by the decision, one may, **within 30 days** of the date of receipt of the award, appeal against the award before the appellate authority.

Ombudsman Scheme for NBFCs

- The RBI on February 23, 2018 launched 'Ombudsman Scheme' for non-banking financial companies (NBFC) for redressal of complaints against them.
- The Scheme is being introduced under Section **45 L of the Reserve Bank of India Act**, 1934.
- There are currently **four NBFC ombudsman offices** in **Chennai, Kolkata, Mumbai and Delhi** where customer complaints from across the country are monitored and resolved.

Some aspects related to the Scheme:

- **No fee** is required for filing and resolving customers' complaints.
- Compensation amount - The compensation limit **is Rs10 lakh.** If a complaint is not settled by an agreement within a period of **one month**, the NBFC Ombudsman proceeds further to pass an award.
- The Appellate Authority is vested with a **Deputy Governor of the RBI.**
- If a complaint is not settled by an agreement within a period of **one month**, the NBFC Ombudsman proceeds further to pass an award.
- If one is aggrieved by the decision, one may, within **30 days** of the date of receipt of the award, appeal against the award before the appellate authority.

- The Scheme cover all deposit-taking and Non-Deposit taking NBFCs having customer interface, with assets size of Rupees 100 crore or above will come within the ambit, and shall comply with the provisions of the Ombudsman Scheme for Non-Banking Financial Companies.

Public Provident Fund (PPF) – Saving scheme

- Public Provident Fund (PPF) scheme is a popular long-term investment option backed by Government of India which offers safety with attractive interest rate and returns that are fully exempted from Tax under Section 80C of the Income Tax Act, 1961.
- It can be opened in a designated post office or a bank branch.
- **Deposit limit** - Deposit Amount as low as Rs. 500 and maximum Rs.1,50,000 in one financial year.
- Maturity period is **15 years** but the same can be extended within one year of maturity for further 5 years and so on.
- One can open a PPF account in one's own name or on behalf of a minor of whom he is the guardian. This is the combined limit of self and minor account.

Bank Accounts

The account which is maintained by a financial institution for the customer is known as bank account.

Generally, there are two types of basic accounts provided by Banks to their customers. Bank accounts are characterized into **Demand Deposits and Time Deposits.**

1. Demand Deposits - In Demand Deposits you can withdraw your money whenever there is demand of money.
- Demand Deposits are of two types: **Savings Account** & **Current Account**
- Also, known as – CASA – Current Account & Saving Account

2. Term Deposits - In Term Deposits money is deposited for a specific time and you cannot withdraw the amount within this specific duration.
- If customer request for money on emergency, then bank deduct some interest and provide money to the customer.
- Term Deposits are of two types: **Fixed deposit & Recurring deposit.**
- Cheque book facility is not available for term deposits.

Saving Bank Account
- Saving Bank Account is opened by Salaried person, Senior citizen, students, etc.
- It is an interest-bearing deposit account.

Current Account
- Current Account is opened by businessman, firm, trust, public-private companies, etc.
- Bank does not provide interest on such accounts.
- There is no restriction on the number and amount of withdrawals.

Difference b/w Saving & Current Account –

Saving Bank Account	Current Bank Account
Bank pays interest on daily basis	Bank does not pay any interest on current account.
Restriction on the number and amount of withdrawals	There is no restriction on the number and amount of withdrawals
SA can be opened by individuals, small businesses and students, etc.	Current Accounts are for big businesses, companies and institutions, etc.
Nomination facility is available for SA deposits.	Nomination facility is normally not available for CA deposits.

Fixed deposit

- Fixed deposit account is opened for fixed period such as - say six months, one year, five years or even ten years.
- You cannot withdraw your money before the expiry of period.
- Banks accept deposits varying from 7 days to maximum of 10 years.

Salient Features of FD –

- FD can be operated for a tenure ranging from **7 days to 10 years** in Indian banking system.
- Not payable on demand and do not enjoy cheque facility.
- Interest rates will be slightly higher for senior citizens (60 + years of age)
- Loan facility is available on principal as well as on interest.
- **But in FD you have to pay income tax**: If your interest income exceeds Rs. 10000 banks will deduct TDS (Tax deducted at source) i.e. banks itself will deduct income tax.

Recurring deposit

- You can deposit amount in a regular interval of time.
- The minimum period of deposit is 6 months and maximum 10 years.
- The main objective of recurring deposit account is to develop regular savings habit among the public.

Salient Features of RD –

- Minimum balance can be deposited under RD is **Rs. 500 per month** and thereafter in multiples of Rs 100/-
- The period of deposit is minimum **six months** and maximum **ten years**. (Minimum tenure varies banks to banks. Some banks allow minimum tenure in RD for **3 months**.)
- The rate of interest is higher.

BSBDA

- Under the guidelines issued on August 10, 2012 by RBI: "Any individual, including poor or those from weaker section of the society, can open zero balance account in any bank.
- **BSBDA 'Basic Savings Bank Deposit Account'** guidelines are applicable to "all scheduled commercial banks in India, including foreign banks having branches in India".
- All the accounts opened earlier as 'no-frills' account should be renamed as BSBDA.
- Banks are required to convert the existing 'no-frills' accounts' into 'Basic Savings Bank Deposit Accounts'.
- The aim of introducing 'Basic Savings Bank Deposit Account' is very much part of the efforts of RBI for furthering **Financial Inclusion** objectives.

Key points:

- There is no limit on the number of deposits in a month.
- Banks have to allow at least four withdrawals in a month, including those from ATM.
- An individual is eligible to have only one 'Basic Savings Bank Deposit Account' in one bank.
- Total credits in such accounts should not exceed **1 lakh rupees** in a year.
- Maximum balance in the account should not exceed **Rs. 50,000** at any time
- The total of debits by way of cash withdrawals and transfers will not exceed **Rs. 10,000** in a month
- Foreign remittances cannot be credited to Small Accounts without completing normal KYC formalities
- Small accounts are valid for a period of 12 months initially which may be extended by another 12 months if the person provides proof of having applied for an Officially Valid Document.

SWIFT

- SWIFT stands for - Society for Worldwide Interbank Financial Telecommunication.
- A SWIFT transfer is a type of international money transfer sent via the SWIFT international payment network.
- This is a kind of network between banks, which can be used to send and receive messages.
- In fact, many banks and financial services providers and institutions use it, and through them, the payment becomes easily and fast.
- For every bank, there is a special swift code that works for its identification.
- The SWIFT network does not actually transfer funds, but instead, it sends payment orders between institutions' accounts, using SWIFT codes.
- A SWIFT code is an international bank code that identifies banks worldwide.
- It's also known as a Bank Identifier Code (BIC). CommBank uses SWIFT codes to send money to overseas banks.
- SWIFT code consists of 8 or 11 characters.

SWIFT Code consist 8 or 11 characters

- When code is of 8 digits, it is referred to primary office
- 1^{st} 2^{nd} 3^{rd} and 4^{th} digit – bank code
- 5^{th} and 6^{th} digits – country code
- 7^{th} and 8^{th} digits– location code
- 9^{th} 10^{th} and 11^{th} digits – branch code (optional).

Digital Banking

National Electronic Fund Transfer (NEFT)

- It is a payment system which facilitates one-to-one funds transfer.
- Under this facility, any customer can electronically transfer funds from any bank branch to any individual, firm or corporate having an account with any other bank branch in the country.
- **Transaction Limit**: There is **no minimum & maximum limit of amount.**
- **Note**: For cash-based remittance and remittance to Nepal - the maximum amount per transaction is limited to Rs 50,000.
- **Timing**: At present, NEFT operates in half-hourly basis - There are **twenty-three half-hourly settlement batches** run **from 8 am to 7 pm** on all working days of week (Except 2nd and 4th Saturday of the month).

Real Time Gross Settlement (RTGS)

- Under this facility the transfer of funds is done individually on an order by order basis (without any delay).
- The RTGS system is primarily meant for large value transactions.
- **Transaction Limit**: The minimum amount is **Rs. 2 lakh**. There is no upper ceiling for RTGS transactions.
- **Timing**: The Reserve Bank of India has extended the last cut-off timing for customer transactions through Real Time Gross Settlement Systems (RTGS) from 4.30pm to 6pm on all working days, effective June 1, 2019.
- Effectively, the transactions will now take place under three windows: **8am to 11am, 11am to 1am and 1am to 6pm**.
- While customers who conduct transactions in the first window won't have to pay any additional fee over and above the fixed processing charge, the additional fee for the second and third window has been set at **Rs.2 and Rs.5 respectively**.

Indian Financial System Code (IFSC)

- It is a 11-digit alpha-numeric code which identifies a bank-branch participating in the NEFT & RTGS system.
- IFSC is used by the NEFT system to identify the originating / destination banks / branches and also to route the messages appropriately to the concerned banks / branches.

Note: IFSC code represent –

- First 4 alpha characters indicate – bank name
- Fifth characters is – 0
- Last 6 characters indicate – bank branch.
- For ex - SBIN0000125 – Here – SBIN indicates – State Bank of India. 0124 represent the Lucknow Main Branch name.

Interbank Mobile Payment Service (IMPS) – It is an instant interbank fund transfer service in which mobile phones are used as channel through which transaction happens with the use of Mobile Money Identifier (MMID). For each account, MMID is generated by bank and it is linked with registered mobile number. Now, account details are fetched from MMID and via registered mobile number transaction occurs.

- **Only MMID and Registered Mobile Number of Payee are needed. Mobile Money Identifier is a 7 digit number, issued by banks.
- **Transaction Limits -** RBI has defined the maximum limit per day transaction. If transaction happens in encrypted format (from net banking) then limit is 50,000 rupees per day whereas if transaction happens in unencrypted messaging formats (from mobile instrument via text message) then limit is 1,000 rupees per day.

NPCI

- National Payments Corporation of India (NPCI) is an umbrella organization for all retail payments system in India.
- It was set up with the guidance and support of the Reserve Bank of India (RBI) and Indian Banks' Association (IBA).
- **NPCI –** Headquarter: Mumbai, Maharashtra.

Products of NPCI is as follows –

(i) Unified Payments Interface (UPI)-

- It is an instant payment system to transfer money between two parties bank accounts.
- It is a similar to NEFT or RTGS transfers in that way.
- It is developed by the National Payments Corporation of India (NPCI).
- Immediate money transfer through mobile device round the clock 24*7 and 365 days.

(ii) Immediate payment service (IMPS) –

- It is an instant real-time payment service which help customer to transfer money anytime and anywhere in India.
- This service is similar to NEFT & RTGS and available 24/7 throughout the year including bank holidays.
- This service is offered by National Payments Corporation of India (NPCI).
- **Transaction limit** – There is a maximum limit of Rs. 2 lakhs.

(iii) Aadhar Enabled Payment System (AEPS) –

- It is an Indian payment system which is based on unique identification number, the AADHAAR.
- The system allows a person holding an Aadhaar number to carry out financial transaction on a Micro-ATM provided by the Banking correspondent.
- It is developed by National Payments Corporation of India.

(iv) Aadhaar Payments Bridge System (APBS)

- It is a payment gateway platform used for Aadhaar schemes.
- Under this facility - Aadhaar number used as a central key for electronically channelizing the Government subsidies and benefits in the Aadhaar Enabled Bank Accounts (AEBA) of the intended beneficiaries.
- It is developed by National Payments Corporation of India.

- It was used for the first time on 1 January 2013 when Direct Benefit Transfer was launched by Government of India.

(v) BHIM APP –

- Bharat Interface for Money (BHIM) is an instant payment application which allow users to transfer fund with the help of mobile phone.
- It is based on the Unified Payment Interface (UPI) and developed by National Payments Corporation of India (NPCI).
- The Prime Minister Narendra Modi launched BHIM app for Android and iOS devices on 30th Dec 2016 at the Digi Dhan Mela event in New Delhi.

Features of BHIM App -

- Maximum limit- User can transfer maximum amount upto Rs 40,000 in a day.
- You can send upto Rs. 20,000 in a single transaction.
- Transaction Charges – There is no transaction charges.
- **UPI PIN** – It is a four or six digit number which is set by the users itself on BHIM after the registration process. UPI PIN is used for authenticating all transactions done on UPI platform (BHIM or *99# or UPI apps).
- **VPA** - Virtual Payment Address (VPA) is a unique identifier which you can use to send and receive money on UPI.
  Note: You can use two VPA's. First one is the default VPA (mobile number@upi). The second one, you can create on "My Profile" page.

(vi) National Automated Clearing House (NACH)

- It is a web based solution to facilitate interbank, high volume, electronic transactions which are repetitive and periodic in nature.
- NACH System can be used for making bulk transactions towards distribution of subsidies, dividends, interest, salary, pension etc. and also for bulk transactions towards collection of payments pertaining to telephone, electricity, water, loans, investments in mutual funds, insurance premium etc.

(vii) National Financial Switch (NFS)

- The National Financial Switch is the largest interconnected network of automated Teller Machines (ATMs) in India.
- This system was developed by Institute of Development and Research in Banking Technology (IDRBT), Hyderabad in 2004.
- It is run by the National Payments Corporation of India (NPCI).

List of important Reports/Index published by International Organizations

Name of Reports	Published by
World Economic Outlook	International Monetary Fund (IMF)
Global Financial Stability Report	International Monetary Fund (IMF)
Ease of Doing Business	World Bank
World Development Report	World Bank
Global Economic Prospects Report	World Bank
Financial Stability Report	Reserve Bank of India (RBI)
Monetary Policy (India)	Reserve Bank of India (RBI)
Asian Development Outlook	Asian Development bank
Inclusive growth & Development Report	World Economic Forum
Environmental Performance Index	World Economic Forum
Global Competitive Index	World Economic Forum
Global Energy Architecture Performance Index Report	World Economic Forum

Global Gender Gap Report	World Economic Forum
Human Capital Report	World Economic Forum
Inclusive growth & Development report	World Economic Forum
Human Development Index	United Nations Development Programme (UNDP)
Sustainable development Goals	United Nations Development Programme (UNDP)
Gender Inequality Index	United Nations Development Programme (UNDP)
Global Hunger Index	International Food Policy Research Institute (IFPRI)
Global Innovation Index	INSEAD
World Economic Situation and Prospects	United Nations Organizations (UN)
Economic Freedom Index	The Heritage Foundation
World Happiness Report	Sustainable Development Solution Network (SDSN)
Economic Outlook Report	Organisation for Economic Co-operation and Development (OECD)

Banking & Financial terms

1. **AEPS –** Aadhar Enabled Payment System
2. **APBS –** Aadhar Payment Bridge System
3. **ATM** – Automated Teller Machine
4. **ALM** - Asset Liability Management
5. **AIIB** - Asian Infrastructure Investment Bank
6. AMFI - Association of Mutual Funds in India
7. BIS - Bureau of Indian Standards
8. **BBPS** – Bharat Bill Payment System
9. **BCA** -Baseline Credit Assessment
10. **BHIM** - Bharat Interface for Money
11. **BLRA:** Bank Led Resolution Approach
12. CBL - Chest Balance Limit
13. CMFRI - Central Marine Fisheries Research Institute
14. **CBS** – Core Banking System
15. **CIDR** - Central Identities Data Repository
16. **CTS –** Cheque Truncation System
17. **CDR** - Corporate Debt Restructuring
18. **CASA** – Current Account Saving Account
19. **CAD** – Capital Account Deficit
20. **CRA** - Counterparty Risk Assessment
21. **CRR** – Cash Reserve Ratio
22. **ECS** – Electronic Clearing Service
23. **DNS -** Domain Name System
24. **DEAF** - Depositor Education and Awareness Fund
25. **EFTPOS -** Electronic funds transfer at point of sale
26. **EFT** – Electronic Fund Transfer.
27. FRBM - Fiscal Responsibility and Budget Management
28. **LGD** - Loss Given Default
29. **LTV**- Loan To Value
30. **LRS** - Liberalized Remittance Scheme

32. **GNFV -** Gross Negative Fair Value
33. **SFTs**: Securities financing transactions
34. **HCE -** Host Card Emulation
35. **PFE** - Potential Future Exposure

31. **LCR** - Liquidity Coverage Ratio

36. IIP - Index of Industrial Production
37. IBBI - Insolvency and Bankruptcy Board of India
38. IFC - International Finance Corporation
39. IDRBT - Institute for Development and Research in Banking Technology
40. Ind As - Indian Accounting Standards
41. ICAAP - Internal Capital Adequacy Assessment Process
42. **IFSC -** Indian Financial System Code
43. **IMPS** - Immediate Payment Service
44. **IMPS** - Interbank Mobile Payment Service
45. **MMID** - Mobile Money Identifier
46. **MPIN** - Mobile Personal Identification Number
47. **NPA** – Non- Performing Assets
48. **NSFR** - Net Stable Funding Ratio
49. **NPCI** - National Payment Corporation of India
50. **NFS** – National Financial Switch
51. **NSFR** - Net Stable Funding Ratio
52. **NACH** – National Automated Clearing House
53. **NEFT** – National Electronic Fund Transfer
54. **NFC -** Near field communication
55. **NDTL** – Net Demand and Time Liabilities.
56. **NASSCOM** - National Association of Software and Services Companies
57. **NIIF** - National Investment and Infrastructure Fund
58. **OTC** – Over the Counter
59. **PIN** – Personal Identification Number

60. **PAC** - Personal Access Code
61. **PCA** - Prompt Corrective Action
62. **PCR** – Public Credit Registry
63. **PCR** - Provisioning Coverage Ratio
64. **PSPs** - Payment Support Providers
65. TC-CCP - Third-Country Central Counterparty
66. TRR - Temporary Recognition Regime
67. TReDS - Trade Receivables Discounting System
68. **RTGS** – Real Time Gross Settlement
69. **USSD** - Unstructured Supplementary Services Data
70. **UIDAI** - Unique Identification Authority of India
71. **VPA** - Virtual Payment Address.
72. WMA - Ways and Means Advances
73. **TIEA -** Tax Information and Exchange Agreement
74. **NRETP** - National Rural Economic Transformation Project
75. **IBC** - Insolvency and Bankruptcy Code
76. **GSP** - Generalised System of Preferences
77. **IFFCO** - Indian Farmers Fertilizer Co-operative
78. **PMJAY** - Pradhan Mantri Jan Arogya Yojana
79. **NBFC** - Non-banking finance companies
80. **SWIFT** - Society for Worldwide Interbank Financial Telecommunications
81. **NHB** – National Housing Bank
82. **NGT** - National Green Tribunal
83. DSIB – Domestically Systematically Important Bank
84. RWAs - Risk Weighted Assets
85. TCs - Trade credits

86. CSO - Central Statistics Office
87. ASSOCHAM - Associated Chambers of Commerce and Industry of India
88. WPI - Wholesale Price Index
89. FTA - Free Trade Agreement
90. NHB - National Housing Bank
91. YONO - You only need one
92. ARC - Asset Reconstruction Company
93. D-SIBs - Domestic Systemically Important Banks
94. MFIs - Micro Finance Institutions
95. FPIs - Foreign portfolio investors
96. FVCIs - Foreign venture capital investors
97. PPF - Public Provident Fund
98. NSC - National Savings Certificate
99. CbC - Country-by-Country
100. WEF - World Economic Forum
101. MPI - Multidimensional Poverty Index **102.**UNDP - United Nations Development Programme **103.**UPI - Unified Payments Interface
104.NPCI - National Payments Corporation of India **105.**CII - Confederation of Indian Industry **106.**NBCC - National Buildings Construction Corporation
107. NSSO - National Sample Survey Office
108. EMV - Europay, MasterCard, Visa.
109. FATF - Financial Action Task Force