CLASS-XI
COMMERCE

Work Book Cum Question Bank with Answers

BANKING & INSURANCE

SCHEDULED CASTES & SCHEDULED TRIBES
RESEARCH & TRAINING INSTITUTE (SCSTRTI)
ST & SC DEVELOPMENT DEPARTMENT
BHUBANESWAR

WORK BOOK CUM
QUESTION BANK WITH ANSWERS

BANKING AND INSURANCE

CLASS - XI
(COMMERCE)

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SYLLABUS (1ST YEAR)

Unit - I

- **Commercial Banking :**

  Meaning and Functions of Commercial Banks, Types of Commercial Banks, Income Statement and Balance Sheet of a Commercial Bank, Credit Creation, Portfolio Management and Nationalization of Commercial Banks, Role of Commercial Banks in a Developing Economy.

Unit - II

- **Central Banking :**

  Central Bank - Functions, Methods of Credit Control, Quantitative Control, Bank Rate, Open Market Operations, Cash Reserve ratio and Selective control.

  Innovative Banking - Merchant banking, Consortium Approach, Credit Card Facilities, On-Line Banking, Telephone Banking, Internet Banking, ATM cum Debit Card, E-Banking and Social Responsibilities of Banks.

Unit - III

- **Introduction to Insurance :**

  Risk - Its classification and how to deal with it, Insurance- Meaning, Definition and Mechanism of Insurance, Functions of Insurance, Basic Concepts, Double Insurance, Re-insurance, Co-insurance, Insurance Market, Insurance Contract, Contingent Contract, Wagering Contract, Fundamental Principles of Insurance Contract, Insurance Act and Role of IRDA.

Unit - IV

- **Life Insurance & Other Insurances :**

  Life Insurance - Element of protection and investment, Importance of Life Insurance, Procedure of effecting a Life policy, premium computation including Mortality table, various Policy conditions, Settlement of Claims, Types of life Insurance policies- On the basis of duration and number of life covered, Concepts of Fire Insurance, Marine Insurance, Fidelity Insurance, Crops Insurance, Motor Insurance and Credit Insurance.

QUESTION PATTERN OF CHSE

Theory	:	80 marks
Project Work	:	20 marks
Total	**:**	**100 marks**

Group - A (Objective type - Compulsory)

1. Multiple choice Questions (12 bits questions of 1 mark each) — 1 x 12 = 12 marks

2. Do as directed questions
   a) Express in one word/term
   b) Correct the underlined portion
   c) Fill in the blanks
   d) Answer in one sentence
   (12 bit questions of 1 mark each) — 1 x 12 = 12 marks

Group B (Short type Answer)

3. To be answered within 30 words (10 bit questions to be answred out of 13 given, each carrying 2 marks) — 2 x 10 = 20 marks

4. To be answered within 50 words (4 bit questions to be answered out of 6 given, each carrying 3 marks) — 3 x 4 = 12 marks

Group C (Long Answer type)

5.to 9. (3 questions to be answered out of 5, each carrying 8 marks) — 8 x 3 = 24 marks

TOTAL — **80 marks**

N.B. : Questions have been framed as per the syllabus and pattern of question set in the Annual H.S. Examination conducted of CHSE, Odisha.

UNIT-I

KEY CONCEPTS

COMMERCIAL BANKING

Meaning and Functions of Commerical Banks, Types of Commercial Banks, Income Statement and Balance Sheet of Commercial Banks, Credit Creation, Portfolio Management and Natoinalisation of Commercial Banks, Role of Commercial Banks in a Developing Economy.

- **Meaning of Commercial Banks**

  Crowthey defines Commercial Bank as an institution which collects money from those who have to spare or who are saving it out of their income and lends the money so collected to those who require it.

  U/S (under section) 5(b) of Banking Regulation Act, 1949; banking means the accepting, for the purpose of lending or investment, of deposits of money from the public repayable on demand or otherwise, and withdrawal by cheque, draft, order or otherwise.

- **Functions of Commercial Banks**

  (A) ***Primary Functions***

  (a) Acceptance of Deposits : (i) Demand Deposits, (ii) Time Deposits, (iii) Fixed Deposits, (iv) Recurring Deposits or Cumulative Deposit

  (b) Granting of Loans and Advances : Forms are - (i) Overdraft, (ii) Cash Credit, (iii) Direct Loans, (iv) Discounting of Bills

  (c) Investment of Funds in : (i) Government Securities, (ii) Other approved Securities, (iii) Share, (iv) Debenture and Bonds, (v) Subsidiaries and other joint ventures, (vi) Others (Certificate of Deposits, Mutual Funds)

  (B) ***Secondary Functions***

  (a) Agency Services : (i) Collection of cheques, bills, (ii) Payment, (iii) Sale and Purchase of Securities, (iv) Trustee, Executor, (v) Correspondence, (vi) Executing Standing Institution, (vii) Acting as Tax Consultant, (viii) Portfolio Management or Merchant Banking Services, (ix) Special Purpose Vehicle (SPV) Services - Scrutinisation of Assets under Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act.

  (b) Public or General Utility Services - These services include issuing letters of credit, providing draft facility, underwriting, giving guarantee for deferred payment, providing locker facilities, references, business and statistical information and facilitating foreign exchange dealings.

  (c) E-Banking Services - Includes : (i) Electronic Payment Services - E-cheques, (ii) RTGSC (Real Time Gross Settlement), (iii) EFTC (Electronic Funds Transfer), (iv) ECS (Electronic Clearing Service), (v) ATM (Automatic Teller Machine), (vi) Point of Sale Terminal - This is a computer terminal that is linked online to the computerised customer information files in a bank and magnetically ecoded plastic transaction card that indentifies the customer to the computer. (vii) Tele Banking - Providing in hours entire non-cash related banking services to the computer on telephone. (viii) Online Banking, (ix) EDI (Electronic Data Interchange) - Electronic exchange of business documents like purchase order, invoices, shopping notices, receiving advices.

- **Types of Commercial Banks**

  On the basis of inclusion in the scheduled maintained by RBI, Commercial Banks may be classified as scheduled or Non-scheduled Banks. These may be further classified as Indian or Foreign Banks depending on their place of registration. Public Sector or Private Sector Banks on the basis of their Ownership Pattern on the basis of nationalisation as Nationalised or Non-Nationalised Banks.

- **Income Statement and Balance Sheet of Commercial Banks**

  As per Section 29 of the Banking Act, 1949, every Banking Company Incorporated in India is required to prepare the Balance Sheet and Income Statement in respect of all business transacted by it and through its branches in India as on the last working day of the Accounting Year (which was earlier Calendar Year, now it is 1st April to 31st March in the form A for Balance Sheet and in the Form B, for Income Statement or Profit and Loss Account as prescribed in the Third Schedule of the Act.

  Credit Creation - Creation of credit is the power of Banks to multiply loans and advances by creating deposits. The banks can multiply a given amount of cash or primary deposit to money times of credit or derivative deposits. The ratio of total derivative deposits to the total primary deposits of a bank is called credit multiplier.

  $$\text{Credit Multiplier} = \frac{1}{\text{Cash Reserve Ratio}}$$

- **Portfolio Management of Commercial Banks**

  Portfolio Management can also be defined as art of selecting appropriate securities and adopting the right investment policies that should ensure maximum return with minimum of risks. Portfolio management therefore means managing investments in the form of bonds, shares, mutual funds, cash etc. in such a way that maximum profit is earned within the stipulated time frame with minimum of risks. It involves constant monitoring, evaluating and revising the portfolio under the expert guidance of portfolio managers in order to attain the investor's goal.

- **Nationalisation of Commercial Banks -**

  Nationalisation means a process that a Government adopts for taking over the ownership and control of any privately owned organisations or entity that it considers essential in the best interest of public and nation.

  On 19th July, 1969, 14 major Indian Commercial Banks, by an ordinance, having deposits of Rs. 50 crores and above, followed by 6 more banks in April, 1980, each having deposit of as 200 crores or above. IDBI Banks Nationalised in 2003.

- Role of Commercial Banks in a Developing Economy -

  The roles of Commercial Banks in a developing economy are capital formation, Financing industries, Trades, Agriculture and Allied Activities, consumer activities, employment generating activities and above all those banks contribute for the growth country's economy.

UNIT - I

GROUP - A : OBJECTIVE TYPE QUESTIONS

1. From the following alternatives given below in each bit choose the correct answer.

1. The name of State Bank of India prior to nationalisation was :
   (a) Bank of Bombay
   (b) Bank of Hindustan
   (c) Bank of Madras
   (d) Imperial Bank

2. The Reserve Bank of India was established in the Year
   (a) 1921 (b) 1934
   (c) 1935 (d) 1955

3. The most ancient Bank in the World is
   (a) Bank of Verice (b) Bank of England
   (c) Bank of Bomaby (d) Bank of Calcutta

4. The main source of funds for a Bank is
   (a) Acceptance of Deposit from Bank
   (b) Borrowing from Public
   (c) Borrowing form other Banks
   (d) Borrowing from Government

5. RTGS stands for
   (a) Real Time Goods Settlement
   (b) Real Time Gross Settlement
   (c) Real Trade Goods Settlement
   (d) Real Time Goods Security

6. The Bank which is not an associate of SBI is:
   (a) State Bank of Mysore
   (b) State Bank of Patiala
   (c) State Bank of Hyderbad
   (d) State Bank of Bangaluru

7. HDFC Bank Ltd. is a :
   (a) Nationalised Bank
   (b) Public Sector Bank
   (c) Private Sector Bank
   (d) None of these

8. Which of the following is a Regional Rural Bank of Odisha
   (a) Bhubaneswar Gramya Bank
   (b) Utkal Gramya Bank
   (c) Jagannath Gramya Bank
   (d) None of these

9. ATM Stands for :
   (a) Automatic Teller Machine
   (b) Automatic Tailoring Machine
   (c) Autocratic Tailor Machine
   (d) None of these

10. A Bank allows no interest on :
    (a) Current Account Deposit
    (b) Fixed Deposit Account
    (c) Savings Deposit Account
    (d) None of the above

11. Types of account maintained by Traders and Businessmen.
    (a) Saving Account
    (b) Current Account
    (c) Fixed Deposit Account
    (d) Recurring Account

12. Income Statement of Bank is preapred to know:
(a) Amount of Loans
(b) Financial Position
(c) Profitability
(d) Amount of borrowings

13. Balance sheet of a Bank should the
(a) Financial Position
(b) Total Expenditures
(c) Gross Profit
(d) Total Income

14. The Profit and Loss Accounts of Commercial Banks are preapred in :
(a) Form - A (b) Form - B
(c) Form - C (d) Form - D

15. The balance sheet of Commercial Banks are preapred in :
(a) Form - A (b) Form - B
(c) Form - C (d) Form - D

16. The number of shcedules shown in Profit and Loss Account of Banks are :
(a) Four (b) Six
(c) Seven (d) Ten

17. The number of schedules shown in balance sheet of banks are :
(a) Seven (b) Ten
(c) Twelve (d) Fifteen

18. The format for preparing final account of a bank has been revised w.e.f. (with effective from)
(a) 1st April, 1935 (b) 1st April, 1949
(c) 1st April, 1971 (d) 1st April, 1991

19. Provisions and contingencies are coming under the head :
(a) Income (b) Expenditure
(c) Appropriatiors (d) None of these

20. Profit on Sale of Investment of a bank is treated as :
(a) Other income
(b) Interested earned
(c) Income or investment
(d) None of these

21. In a Bank Balance Sheet Number of Schedules alloted for Capital and Liabilities are :
(a) Four (b) Five
(c) Seven (d) Ten

22. Customers' Savings Deposit amount is shown in Bank Balance Sheet as :
(a) Asset (b) Liability
(c) Capital (d) None of these

23. The deposits by customers in a bank repayable after a specified period is known as :
(a) Demand deposit (b) Current Deposit
(c) Term Deposit (d) None of these

24. Banks keep Cash Book like :
(a) Rough Cash Book
(b) Fair Cash Book
(c) Both Rough and Fair Cash Book
(d) None of the above

25. Deposit scheme in which customer opens account and deposit a certain sum of money in bank at regular monthly interval is termed as :
(a) Fixed Deposits (b) Time Deposits
(c) Recurring Deposits (d) None of the above

26. The process of keeping Cash Reserves by all the commercial banks with Reserve Bank of India is termed as
(a) Bank balance with RBI
(b) Cash Reserve Ratio
(c) Statutory Liquidity Ratio
(d) Repo Rate

27. The concept of Non Performing Assets comes in to existence in the year
    (a) 1990 (b) 1991
    (c) 2001 (d) 2003

28. The credit information bureau India Limited (CIBIL) was established in
    (a) 1998 (b) 2001
    (c) 2003 (d) 2010

29. Prime Minister Mrs. Indira Gandhi announced the Nationalisation of 14 major Private Banks in July.
    (a) 1979 (b) 1969
    (c) 1980 (d) 1981

30. In 1980, the numbers of commercial banks that were nationalised was
    (a) 6 (b) 14
    (c) 8 (d) 20

31. In 1990 the New Bank of India was merged with :
    (a) State Bank of India
    (b) United Bank of India
    (c) Union Bank of India
    (d) Punjab National Bank

32. After Natinalisation of Commercial Banks the nature of banking charged from purely commercial to :
    (a) Auto Cratic Banking
    (b) Artificial Banking
    (c) Social Banking
    (d) Democratic Banking

33. SLR Stands for :
    (a) Short-term Liquidity Ratio
    (b) Statutory Liqudity Rate
    (c) Statutory Liquidity Ratio
    (d) None of these

34. Increase in the Cash Reserve Ratio by the Central Bank result in :
    (a) Leakage of Credit
    (b) Expansion of Credit
    (c) Contraction of Credit
    (d) Disappearane of Credit

35. The main Objective of portfolio management is :
    (a) Maintaining Liquidity
    (b) Ensuring Safety
    (c) Increasing Profitability
    (d) All of the above

36. Keeping certain percentage of their deposits to meet the demand of customers by the Banks is term as :
    (a) Cash Reserve Ratio
    (b) Cash Reverse Ratio
    (c) Credit Rserve Rate
    (d) None of these

37. The credit multiplier of a bank revers to the ratio of total derivatives to the :
    (a) Total Secondary Deposits
    (b) Total Primary Deposits
    (c) Total Public Borrowings
    (d) None of the above

38. The Reserve created out of Capital Profits of a banking business is termed as :
    (a) Capital Reserve (b) Revenue Reserve
    (c) Specific Reserve (d) General Reserve

39. The credit instrument considered as plastic money in the banking system is
    (a) Debit Card (b) Traveller's cheque
    (c) Letter of Credit (d) Credit Cards

40. Overdraft facility is provided to the customers having a
(a) Current Account
(b) Savings Account
(c) Loan Account
(d) All of the above

41. The Primary Service provided by a Commercial Bank is
(a) Accepting Deposit
(b) Safeguard the deposits of consumers
(c) Issuing Loans to the needy people
(d) All of the above

42. The major sources of funds of a Commercial Bank is
(a) Issue of Loan
(b) Acceptance f deposits
(c) Issue of share
(d) None of above

43. Amount payable to the customers by the banks against tangible or collateral security is called
(a) Secured Advance
(b) Clean Advance
(c) Cash Credit
(d) None of the above

44. The process of dealing with products like Gold and Silver in many countries by banks is termed as :
(a) Clean Advance
(b) Overdraft facility
(c) Bullion Trading
(d) None of above

45. Which of the deposit accounts are opened by a bank.
(a) Fixed Deposit
(b) Savings Bank Deposit
(c) Current Account Deposit
(d) All of the above

2. Do as Directed Questions

2 (a) Answer the following questions in one sentence each.

1. Define a Bank
2. What do you mean by general utility function of a Bank ?
3. What is Cash Credit ?
4. What do you mean by 'Bank Overdraft' ?
5. State the meaning of 'undertaking'.
6. What is Letters of Credit ?
7. What is Final Account of a Bank ?
8. What is a Schedule ?
9. What does Balance Sheet show ?
10. What is Credit Creation ?
11. What is Portfolio Management ?
12. What do you mean by Nationalisation of Commercial Banks ?
13. What is Statutory Liquidity Ratio ?
14. What do van mean by money at call and short notice ?
15. What is Scheduled Bank ?

2 (b) Express the following in one word / term each.

1. Fixed deposit is otherwise known as :
2. Electronics instructions given by bank to transfer funds from their account to the account of another banks.
3. Electronic fund transfer where no minimum amount is fixed.
4. Traveller can travel without fear, theft and loss of money in which type of cheque.
5. Which type accounts holders are allowed overdraft facility.
6. Primary deposit is also called as.
7. The deposit which is created by bank when the bank grants loan to customer, is known as :
8. Online banking system in a mobile telephone is called as :
9. Which schedule of Bank's Balance Sheet shows loans and advances.
10. How many banks are Nationalised by Government of India in 1969.
11. NPA stands for
12. The ratio of increase in total deposits to increase in primary deposits.
13. The readiness of bank to convert it's assets into cash with no or normal loss, is known as :
14. The loans which involves the pledge of specific collateral securities, is called on.
15. Who governs the lending policy of Bank ?

2 (c) *Correct the underlined portion of the following sentences.*

1. Banks of Calcutta, Bank of Bombay and Bank of Madras were merged to form <u>Reserve Bank of India</u>.
2. The name of Central Bank in India is <u>State Bank of India</u>.
3. The banks incorporated in India but operating abroad through it's branches is called as <u>Foreign Bank</u>.
4. During 1980, <u>10</u> leading commercial banks were nationalised by the Government of India.
5. The Assets and Liabilities of a Commercial Bank are shown in <u>Income Statement</u>.
6. Final account of a commercial bank consists of <u>trial balance</u> and balance sheet.
7. Borrowing from RBI and other institutions by a Commercial Bank are shown as <u>assets</u> in balance sheet.
8. Bills discounted and purchased is coming under <u>liabilities</u> of a Bank.
9. Tax paid in advance comes under <u>fixed</u> assets of a bank balance sheet.
10. Higher is cash Reserve Ratio <u>greater</u> is the ability of banks to create credit.
11. Choice of assets and their appropriate composition by Commercial Banks is known as <u>asset choice</u> management.
12. The system of banking in which one individual or group of individual control and regulates two or more banks in <u>Unit Banking</u>.
13. <u>Chain Banking</u> refers to a banking system where two or more banks are controlled and regulated by a holding company.
14. <u>Capital Profit</u> refers to undistributed part of profit kept to meet various contingencies.
15. Expenses on printing and stationary comes under <u>interest expended</u> in a profit and loss account.

2 (d) *Fill in the blanks.*

1. In the year ________ the Reserve Bank of India was formed.
2. In 1959 SBI has taken over ________ numbers of princely state associate banks.
3. Odisha Gramya Bank and ________ are the regional rural banks in the State of Odisha.
4. Acceptance of deposits comes under ________ functions of commercial banks.
5. Final Account of Bank is prepared on ________ of every year.
6. Schedule 16 of Profit and Loss Account shows ________ of a Commercial Bank.
7. After 1969 the nature of Indian Banking changed from purely ________ to Social Banking.
8. State Bank of India Act was passed in the year ________.
9. The Banking Law (Amendemnt) Act was passed in the yar ________ to bring social control over banks.
10. The commercial banks having deposits of rupees ________ or above were natioalised in 1980.
11. Deposits create loan and loans create ________.
12. Central Bank is also considered as ________.
13. Commercial Bank deals in collection of funds and ________ of these funds to the genral public in the form of lending.
14. A Bank bridges the gap between ________ and ________.
15. Current deposits are also known as ________ deposits.

UNIT - I

GROUP - A : ANSWERS

1. From the following alternatives given below in each bit choose the correct answer.

1. (d) Imperial Bank
2. (c) 1935
3. (a) Bank of Venice
4. (a) Acceptance of Deposit from Bank
5. (b) Real Time Gross Settlement
6. (d) State Bank of Bangaluru
7. (c) Private Sector Bank
8. (b) Utkal Gramya Bank
9. (a) Automatic Teller Machine
10. (a) Current Account Deposit
11. (b) Current Account
12. (c) Profitability
13. (a) Financial Position
14. (b) Form - B
15. (a) Form - A
16. (a) Four
17. (c) Twelve
18. (d) 1st April, 1991
19. (b) Expenditure
20. (a) Other income
21. (b) Five
22. (d) None of these
23. (c) Term Deposit
24. (c) Both Rough and Fair Cash Book
25. (c) Recurring Deposits
26. (b) Cash Reserve Ratio
27. (b) 1991
28. (b) 2001
29. (b) 1969
30. (a) 6
31. (d) Punjab National Bank
32. (c) Social Banking
33. (c) Statutory Liquidity Ratio
34. (c) Contraction of Credit
35. (d) All of the above
36. (a) Cash Reserve Ratio
37. (b) Total Primary Deposits
38. (a) Capital Reserve
39. (d) Credit Cards
40. (a) Current Account
41. (d) All of the above
42. (b) Acceptance of deposits
43. (a) Secured Advance
44. (c) Bullion Trading
45. (d) All of the above

2 (a) *Answer the following questions in one sentence each.*

1. Under Section 5(b) of Banking Regulation Act, 1949, banking means the accepting, for the purpose of lending or investment, of deposit of money from the public, repayable on demand or otherwise and withdrawable by cheque, draft, order or otherwise.
2. Banks provides the general utility functions such as issuing letter of credit, providing draft facilities, underwriting, giving guarantee for deferred payment, providing locker facility, business and statistical information and facilitating foreign exchange dealings.
3. Cash credit means permission to draw cash upto a certain limit fixed by bank an annual basis.
4. It means over drawing or drawing more money than one has in his account with the Bank.
5. Banks underwrites the shares and debenture of joint stock company where the bank undertakes to buy the unsubscribed shares.
6. It is a guarantee given by a bank that in case it's customer fails, the bank undertakes to make payment.
7. Final Accounts incorporates Profit and Loss Account and Balance Sheet at the end of one year to know the profitability and financial position of the bank.
8. Schedule can be defined as a short explanatory note mentioning the different items to be included under different heads.
9. It indicates the sources from which the bank collects it's funds and the manner in which it deploys them.
10. It refers to the power of banks to multiply loans and advances through creating deposits.
11. This is art of selecting appropriate securities and adopting the right investment policies that should ensure maximum return with minimum of risk.
12. It is a process that a Government adopts for taking over the ownership and control of any privately owned organisation or ending that it considers essentials in the best interest of the public and nation.
13. It means keeping of certain percentage of assets of Banks in near liquid form (As per law).
14. Those are short-term loan given by bank.
15. The banks which included in the second schedule of RBI Act, 1934.

2 (b) *Express the following in one word / term each.*

1. Term Deposit
2. RTGS (Real Time Gross Settlement)
3. NEFT (National Electronic Fund Transfer)
4. Traveller's Cheque
5. Current Account
6. Passive Deposit
7. Derivative or Active Deposit
8. Mobile Banking
9. Schedule 9
10. 14 Banks
11. Non-performing Assets
12. Credit Multiplier
13. Liquidity
14. Secured Loans
15. Reserve Bank of India (RBI)

2 (c) *Correct the underlined portion of the following sentences.*

1. State Bank of India (SBI)
2. Reserve Bank of India (RBI
3. Indian Bank
4. 6
5. Balance Sheet
6. Profit and Loss Account
7. Liabilities
8. Assets
9. Current
10. Lower
11. Port Folio
12. Chain Banking
13. Group Banking
14. Reserve
15. Operating Expenses

2 (d) *Fill in the blanks.*

1. 1935
2. 8
3. Utkal Gramya Bank
4. Primary
5. 31st March
6. Operating Expenses
7. Commercial
8. 1955
9. 1968
10. 200 Crores
11. Deposits
12. Banker's Bank
13. Allocation
14. Savers and Borrowers
15. Demand

UNIT - I

GROUP - B : SHORT TYPE QUESTIONS

3. Answer the following questions within 30 words each.

1. What are different types of accounts maintained by banks to accept deposit ?
2. What are the different from of advancing loans by banks ?
3. How banks employ it's funds to generate the return ?
4. What are obligations of Scheduled Banks under RBI Act, 1934 ?
5. How Private Sector Banks are regulated ?
6. How many Banks are nationalised in India ?
7. How many associate banks at present are subsidiary of SBI ?
8. What are the objectives of Regional Rural Banks ?
9. What is point of Sale Terminal ?
10. What is Electronic Data Interchange ?
11. How many Schedules are there in revised format of Profit and Loss Account ?
12. How many schedules are there in Balance Sheet ?
13. What are those schedules of Liabilities of Balance Sheet ?
14. What are Schedules of Assets of Balance Sheet ?
15. What is Demat Accounts ?
16. What does the balance sheet of a bank show ?
17. Why Profit and Loss Account are prepared ?
18. What is mean by appropriation of profit ?
19. What items are included in schedule 5 of balance sheet under the head "Other Liabilities and Provision" ?
20. What items are included in schedule 6 of balance sheet under the head "Cash and Balances with RBI".
21. How Commercial Bank helps in capital formation for the development of economy ?
22. How Commercial Banks influence Economic activity of a Country ?
23. How Commercial Banks help to remove Regional imbalance ?
24. "Every loan crates deposit". Justify.
25. What is effect of loan repaid by the borrower on derivative deposit ?
26. What are factors which influence the credit creation ?
27. What is the relationship between credit multiplier and Cash Reserve Ratio ?
28. What is the influence of primary deposit on credit creation ?
29. How far Banking habit of the people will influence Credit Creation ?
30. How Statutory Liquidity Ratio (SLR) will affect the Credit Creation ?
31. If the borrowers withdraw of their deposit in cash, how far the same will affect the Credit Creation ?
32. How far Monetary Policy of Central Bank will affect the Credit Creation ?
33. "Business Conditions of the country influence the Credit Creation." Justify.
34. What are the basic objectives of Nationalisation of Commercial Banks?
35. Which was the first step of Nationalisation in the Country ?

36. What are different Commercial Banks those are nationalised on 15 April, 1980.
37. What are the steps taken by Government to Provide Banking Services to Rural Sector ?
38. What steps after nationalisation was taken by Banks to reach neglected and weaker section of the society in rural areas ?
39. What is IRDP programme ?
40. What steps taken after Nationalisation to develop MSME ?
41. Mention the name of basic principles of portfolio management.
42. What is the point of difference between portfolio management and Investment Management ?
43. To what extent liquidity position of corporation is to be maintained ?
44. What is relationship between liquidity and profitability ?
45. Why total liquidity of entire banking system can not be increased simultaneously ?

4. *Answer the following questions within 50 words each.*

1. Mention the main features of Commercial Banks.
2. What are the different types of Commercial Banks ?
3. What are the Capital Features of RRB ?
4. What are different Co-operative Banks ?
5. What are different Demand Deposits ?
6. What are different Time deposits ?
7. How overdraft facilities are provided to Current Account holder ?
8. What is Cash Credit ?
9. What is discounting of Bills ?
10. What are the different heads of Investment of Commercial Banks in the balance sheet ?
11. What are different Agency Services of a Commercial Banks ?
12. How Banks Act as trustee, executor and attorney on behalf of their customers ?
13. How Banks execute standing instruction of customers ?
14. What are different utility functions rendered by Commercial Banks ?
15. In which way the Commercial Banks help the agricultural sector ?
16. How far Commercial Banks help in financing consumer activities ?
17. How the Commercial Bank helps in employment generating activities ?
18. What are the basic objectives of portfolio Management ?
19. Mention the origin of portfolio management practice in India.
20. Why the Government made nationalisation of some important Commercial Banks in different phases ?
21. What should be loan Territory of Commercial Banks ?
22. What should be the size of Loan Portfolio of Commercial Banks ?
23. What criteria should be considered for Non performing Assets of Bank ?
24. How Non-performing Assets can be converted to performing Assets ?
25. What are Social Services provided by Banks ?
26. What are different Commercial Banks nationalised on 19 July, 1969 ?

UNIT - I

GROUP - B : ANSWERS

3. Answer the following questions within 30 words each.

1. Types of accounts are fixed or term deposit, current account deposit, savings deposit account and recurring deposit on monthly basis.

2. Those are money at call usually made to other banks and financial institution, overdraft to current accounts holder, cash credit to customer, discounting of bills and providing credit to Government.

3. Banks invest a significant portion of their funds in the form of Government and other approved securities, shares and debenture and others such as certificate of deposit and mutual funds.

4. Obligations are maintenance of average daily balance cash reserve with RBI varying between 3% to 15% of liabilities and submission of periodical returns to the RBI.

5. Private Sector Banks established, managed and controlled by Private Parties, are required to get permission and operate strictly under the provision of RBI Act.

6. The Imperial Bank of India was nationalised in 1955 and renamed as SBI, followed by 14 private bank in 1969, 6 more in 1980 and IDBI in 2003.

7. Five associate banks such as State Bank of Bikaner and Jaipur, Hyderabad, Mysore, Patial and Travancore; are Subsidiary of SBI.

8. The basic objective is to develop rural economy by providing credit and deposit facilities for agriculture and other providing activities of all kinds in rural areas.

9. Point of Sale Terminal is a computer terminal that is linked online to be computerised customer information files in a bank and magnetically encoded plastic transaction card for identification of customer.

10. EDI is the electronic exchange of business documents like purchase order, invoices, shipping notices, receiving advices etc. in a standard, computer processed, universally accepted format between trading partners.

11. The revised format of Profit and Loss Account has two schedules (13 and 14) in respect of incomes and two schedules (15 and 16) in respect of expenditure.

12. Balance Sheet has Five Schedules (From 1 to 5) in respect of liabilities and 7 Schedules (From 6 to 12) in respect of assets.

13. Schedules of Liabilities from 1 to 5 are capital, reserves and surplus, Deposits, Borrowings and other liabilities and provisions respectively.

14. Those schedules from 6 to 12 are cash in hand and balance with RBI, Balance with banks and money at call and short notice, Investment, Advances Fixed assets, other assets and contingent liabilities.

15. In this account there is dematerialisation of paper-based Physical Stock Share transaction : Such account is used to avoid holding physical shares and the shares are bought and sold through a stock broker.

16. It shows the complete details about it's assets and liabilities. It is viewed as a true index of the activities, managerial prudence and solvency of a bank.

17. This is prepared for the year ending March 31 to show the financial performance during that period. This show net operating result after deducting expenditure from Income and subsequent appropriation.

18. This application of net profit and subsequent transfer to statutory and other reserve and to Government / Proposed Dividend and balance carried over to balance sheet.

19. The items are Bill Payable, inter-office adjustment (Net), Interest Accrued and others (including provisions) as on 31st March of Current Year and those of previous Year.

20. The items are cash in hand including foreign currency, balance with RBI including foreign currency in Current Account and other accounts.

21. Commercial Bank stimulates the savings of masses by providing number of incentives and also in rural areas through the net work of branches. Those activities help in capital formation.

22. Economic activity can be influences by changing the interest rate and volume of Credit. Lowering lending rate and variable Quantum of Credit stimulate economic activity.

23. This is done by transferring surplus from the developed regions to underdeveloped one facilitating establishment of more industries in the under-developed regions.

24. The amount loan sanctioned is credited to customer's account which is shown as a new deposit. Thus a borrower becomes depositor for bank who can keep certain percentage as cash-reserve.

25. When the loan is repaid by the borrower, the derivative deposit created by the bank is automatically closed which would lead to net decrease in the total stock of money in the economy.

26. Credit creation magnitude depends the number of banks that the loan floats and percentage of cash reserve ratio which the keeps as reserve from deposit.

27. Credit multiplier and Cash Reserve Ratio are inversely proportionate to each other.

$$\text{Credit Multiplier (K)} = \frac{1}{\text{Cash Reserve Ratio (CRR)}}$$

Lower CRR higher credit can be created and vice versa.

28. Larger the primary deposit the volume of credit creation will be more as the derivative deposit is created on the strength of primary deposit.

29. If the people of a country conduct most the business transactions in cash instead of cheque, the power of credit creation by commercial banks is reduced.

30. The commercial banks are required to keep a certain percentage of their assets in near-liquid form. Thus lendable resources are affected consequenting to sequence the power of credit creation.?

31. Credit creation assumes that a bank advances loan by the full amount of excess of cash reserves. Magnitude of credit creation will be reduced on withdrawal of cash by borrowers.

32. The Central Bank uses various methods of credit control such as Bank rate and open market operation for expansion and contraction of credit by commercial banks.

33. During prosperity people borrow more and in depression they are not interested to borrow. Thus credit creation expanded in prosperity and contracted in depression.

34. Commercial Banking nationalisation is intended to banking net-work to all parts of the country and to achieve better credit planning and larger fund allocation to the priority sectors.

35. SBI Act, 1955 was passed and Imperial Bank of India was nationalised and renamed as SBI and subsequently in 1959 SBI (Subsidiary Bank) Act was passed to take over 8 princely State associated banks.

36. Those 6 more banks are Andhra Bank, Corporation Bank, New Bank of India, Oriental Bank of Commerce, Punjab and Sind Bank and Vijaya Bank. (Later in 1993 New Bank of India was merged with Punjab National Bank)

37. As per recommendation of Gorwala Committee number of new rural branches were opened to assist the agricultural sector. Social Control Scheme (1967) was introduced to reach the larger section of Society.

38. Banks had introduced welfare scheme like 20 point programme, Differential Interest Rate Scheme, Jawahar Rojgar Yojana, Priority Sector Scheme to assist and improve the quality of lending to rural population.

39. Integrated Rural Development Programme was initiated to provide subsidised credit facility to the families below poverty line in order to enhance their standard of living.

40. Micro, Small and Medium Enterprise are treated as priority sector where commercial bank are advised to allocate 60% of MSE advance to micro enterprise on the objective of development.

41. Three basic principles of portfolio management, are principle of liquidity maintaining sufficient amount of liquids assets, principles of safety ensuring minimum risk and principal of profitability ensuring sufficient return.

42. Basically both are same but point of difference in that the investment management includes portfolio along with investment in real estate, contribution to provident fund like policy etc.

43. In order to maintain the confidence of depositor the bank must able to repay whenever the customers demand. For the purpose sufficient amount of liquid assets should be kept.

44. The liquidity is inversely related to profitability, that means if the bank wants to maintain liquidity the profitability is to be sacrificed. Similarly keeping less cash will enable to profit.

45. This so as sometimes highly liquid assets of bank can be shifted to other banks for cash without material loss. Total liquidity position of entire banking system can not be increased simultaneously.

4. *Answer the following questions within 50 words each.*

1. Those are the financial institution whose entities are either duly registered under Companies Act if privately owned or incorporated under special Acts of Parliament if Public Sector. Concerned with accepting deposits and advancing loans to the public. Besides that they also render utility based service to the customer.

2. On the basis of inclusion in schedules maintained by RBI, they may be scheduled or Non Scheduled and again they may be Indian and Foreign Banks. On the basis of ownership the banks may be private or public and on nationalisation point of view they may be Nationalised or Non-nationalised.

3. Paid up capital of each Rural Bank is Rs. 25 lakhs. 50% of which has been contributed by the Central Government. 15% by State Government and 3.5% by sponsoring Public Sector Commercial Banks which are also responsible for actual setting up of the RRBs.

4. Agricultural and non-agricultural are two types Co-operative Banks. There two separate co-operative agencies for the provision of agricultural credit; one for short-term and medium term and the other for long term credit. The former has three tier and Federal Structure. Long-term has two tier. (For short term - Apex is State Co-operative Banks (SCB), at district level Central Co-operative and at village level Primary Agricultural Credit Society (PAC).

5. Such deposits are withdrawable on Demand. The types of demand deposits are saving and current deposits. Savings account can be withdrawn at will on limitation of total number of withdrawals per week. Current account holders are repayable on demand. Normally no interest is paid on such but overdraft are provided.

6. Such deposits are only withdrawable on the exploring of the period pre-fixed at the time of deposits although there is also provision for withdrawal earlier with loss of interest. Fixed deposit whose rate of interest is higher that of other form of deposits and recurring deposit (whose rate of interest is same).

7. Overdraft facilities means drawing more money than one has in his account. It is a short-term facility extended by bank to some of it's trusted business customers who are having Current Account only. Interest is charged by the banks on the exact amount of overdraft. The bank may demand some collateral or personal security.

8. It means permission to draw cash upto a certain limit fixed by bank known as a cash credit limit which is fixed on an annual basis. Such facility is granted against the security of goods or personal security of one or more persons other than the principal borrower.

9. It is way of providing loan under which bills before maturity are kept by the bank and the amount in the bill is paid deducting a certain amount known as discount. If trade bills are allowed by banks for discounting, they are called bills discounted.

10. Over the years the investment has grown remarkably. Those are six heads in which investment are made in the balance sheet of banks - Government Securities, Other approved securities, shares, Debenture and Bonds, Subsidiaries and Joint Ventures, Others such as Certificate of deposits, Mutual funds.

11. Various functions performed by a banker as an agent on behalf of the customers, whenever duly authorised, are called agency services. The agency services include collection of cheque / draft, payment, sale and purchase of securities, trustee executor and attorney, and correspondence on behalf of customers.

12. Banks acts as trustees, executors and attorney on behalf of their customers. As a trustee, the banker takes care of funds of the customers, helps in proper management of trust. As executor it carriers out the desires of deceased customer left in the will. As an attorney, the banker signs transfer form deeds and documents on behalf of customer.

13. Sometimes on direction of customer the bank will make necessary arrangement for payment of certain persons or institutions in a regular time intervals like payment of insurance premium, loan instalment, house rent etc. The written order is called standing instruction. The banks being the agent of it's customer executes those.

14. Commercial banks render various services useful to the customer. These services include issuing letter of credit, providing draft facilities, underwriting, giving guarantee for deferred payment, providing locker facilities, references, business and statistical information and facilitating foreign exchange dealings.

15. Commercial Banks open a network of branches in rural areas to provide agricultural credit. They provide finance directly to agriculturist for the marketing of their produce, for the modernisation and mechanisation of their firms, for providing irrigation facilities, for developing land. Financial assistances also provided to animal husbandry, dairy and poultry farming.

16. The commercial banks advance loans to consumer for the purchase of durable consumer goods such as houses, scooters, AC, Car etc. They provide loans in buying those items and thus raising the standard of living and also creating complementary demand for industries.

17. Commercial Banks provide loan for the education of Young Person's studying in engineering, medical and other professional courses. They also provide loans to young entrepreneurs, medical and engineering graduates, and other technically trained persons in establishing their own business. Thus entrepreneurial activities of a country grow.

18. The basic objectives are maintenance of appropriate liquidity, secured of investment growth of capital to maximum extent, proper diversification of portfolio, ensuring conducive tax status and most important is consistency of returns. In achieving those objectives the banks should be careful, Judicians and national approach.

19. Though Unit Trust of India, first ever mutual fund, was established in 1964, the real growth of managed portfolio started only from 1986 onwards, when the Public Sector Banks got into act of establishing mutual funds with the entry of Private Sector Mutual Funds from 1993, the Scenario has been changed.

20. As the Government felt that the commercial bankings were not serving in public interest, failed to provide credit to the priority sectors such as agriculture, and small-scale industries and also failed to expand their business in the unbanked rural and remote areas.

21. The loan territory depends on many factors such as amount of bank resource, competition, the demand for loans. It also depends on the ability of bank to supervise or to keep in close contact with the borrowers. Banks may have no territorial limitations for certain classes of loans.

22. The size of loan depends upon the credit demand, demand of depositors for withdrawal, capital funds of the bank, the abilities of bank personnel and liquidity needs or priority for bank funds. Bank loan portfolio is the involvement of bank deposits in the form of lending.

23. An asset is treated as non-performing when it ceases to generate income for the bank. A non-performing asset is termed as a credit facility given in favour of the customer, in which the interest and principal became due for a long period of time (within 90 days from the due date).

24. This can be made by regularising and operating before preparation of balance sheet by payment of overdue amount through genuine sources, banks then such account is not treated as non-performing assets. Bank has to ensure that the account remains in order.

25. Social responsibility is discharged by bank by serving different unorganised sections of the society like landless farmers, small business sector, weaker sections of the society, women entrepreneurs etc. This is ensured by developing banking habit, making branch expansion, provision of loans and advances to weaker sections.

26. These 14 Banks are Allahabad Bank, Bank of Baroda and Maharastra, Dena Bank Canara Bank, Bank of India, Indian Bank, Overseas Bank, Punjab National Bank, Union and United Bank of India, United Commercial Bank, Dena, Canara and Syndicate Bank.

UNIT - I

GROUP - C : LONG TYPE QUESTIONS

1. Explain the meaning and features of Commercial Bank.
2. What are different types of Commercial Banks ?
3. What are primary functions of Commercial Banks ?
4. What are Secondary Functions of Commercial Banks ?
5. Discuss the role of Commercial Banks in developing economy.
6. What are characteristics of a Good Banking System ?
7. Discuss various expenditure items in a Profit and Loss Account of a Commercial Bank.
8. How Balance Sheet of Bank is Prepared ?
9. Discuss the mechanism of Credit Creation.
10. Mention the limitations of Credit Creation.
11. Define Portfolio Management. Discuss the objectives of portfolio management.
12. Discuss the various Theories of Portfolio Management.
13. Define Nationalisation. Discuss the Aims and objectives of Bank Nationalisation.
14. Why the Government was prompted to nationalise 14 privately owned banks in 1969 and again 6 of such banks in 1980 ?
15. Discuss the benefits of Nationalisation.

UNIT - I

GROUP - C : ANSWER

1. Crowthey defines it as institution "that collects money from the those who have to spare or who are saving it out of their income and lends the money so collected to those who require it".

   Banking Regulation Act, 1949 u/s 5(b) "Banking means the accepting, for the purpose of lending or investment, of deposit of money from the public, repayable on demand or otherwise and withdrawable by cheque, draft, order or otherwise".

Features of Commercial Banks

(i) Financial institution having legal entity either duly registered under Companies Act if privately owned or incorporated under special Acts of Parliament if they are Public Owned or Public Sector Banks.

(ii) They are primarily concerned with accepting deposits and advancing loans to the public.

(iii) They usually provide a variety of utility based services to the customers.

(iv) They generally provide short and medium term loans and advances.

(v) They mostly cater to the credit needs of trade and industries besides meeting the needs of individual customers.

(vi) They cover client across the country through their net work of branches.

(vii) They play a significant as most effective instrument of Socio-Economic transformation of the ration.

2. Different Categories of Commercial Banks are :

(A) On the basis of inclusion in Schedule

(i) Schedule Banks - Enlisted or included in the Second Schedule of Reserve Bank of India, Act, 1934.

(ii) Non-Scheduled - Not included in the Schedule. Have to maintain Cash Reserve Ratio (CRR) but not required to keep with RBI. Under abnormal circumstances like shortage of funds, they can borrow from RBI.

(B) On the basis of ownership -

(i) Public Sector - Owned, managed and controlled by Government.

(ii) Private Sector - Established, managed and controlled by Private Parties. Permission of RBI necessary. Under guidance of RBI.

(C) On the basis of Place of registration

(i) Indian Banks - Incorporated and Head Office in India.

(ii) Foreign Banks - Incorporated and Head Office outside India.

List of Foreign Bank - ABN Amro Bank, ABU Dhabi Commercial Bank, American Express Banking Corporation, Antwrep Diamond Bank, AB Bank, Bank International Indonesia, Bank of America, Bank of Bahrain and Kuwait, Bank of Ceylon, Bank of Nova Scotia, Bank of Tokyo, Mitsubishi UFJ, Barclays Bank, BNP Paribas, Calyon Bank, China Trust Commercial Bank, DBS Bank, Deutsche Bank, Hongkong and Shanghai Banking Corporation.

(D) On the basis of Nationalisation

(i) Nationalised Banks - The Imperial Bank of India Nationalised in 1955 followed by 14 such Pvt. Banks in 1969, 6 more in 1980 and 1 in 2003.

(ii) Non-Nationalised Banks

3.(A) Acceptance of Deposits -

(i) Demand Deposits

(a) Saving Banks Deposit

(b) Current Account Deposit

(ii) Time Deposits

(a) Fixed Deposits

(b) Recurring Deposits or Cumulative Deposits

(B) Granting of Loans and Advances - Forms of Loans and Advances are :

(i) Overdraft

(ii) Cash Credit

(iii) Direct Loan

(iv) Discounting of Bills

(C) Investment of Funds in the Six heads

(i) Government Securities

(ii) Other Approved Securities

(iii) Share

(iv) Debenture and Bonds

(v) Subsidiaries and Joint

(vi) Others (Certificate of Deposits, Mutual Funds)

4. These functions are - Agency Services, Public Utility Services and E-Banking Services.

(A) Agency Services : includes

(i) Collection of Cheques / drafts

(ii) Payment on behalf of Customer - Insurance, Premium, Rents, Taxes, Electricity Bills Periodically.

(iii) Sale and Purchase of Securities

(iv) Trustee, executor and attorney

(v) Correspondent agents or representative of their customers.

(vi) Executing standing instructions

(vii) Acting as tax consultant

(viii) Portfolio Management or Merchant Banking Services

(ix) Special Purpose Vehicle (SPV) Services - Scrutinisation of Assets under Scrutinisation and of Reconstruction of Financial Assets and Enforcement of Security Interest Act.

(B) Public or General Utility Services - These services include

(i) Issuing Letters of Credit

(ii) Draft facilities

(iii) Underwriting

(iv) Giving guarantee for deferred payments

(v) Providing locker facility

(vi) Acting as Referee

(vii) Providing Business and Statistical information to customers

(viii) Providing Consultancy Services and Payment of Pensions.

(C) E-Banking Services - Information Technology has basically been used under two different avenues in banking. One is communication and connectivity and other is business process reengineering.

Following are the innovative e-banking services offered by different banks in the recent past :

(i) Electronic Payment Service - E-cheque - developed in U.S. to replace the conventional paper cheque.

(ii) Real Time Gross Settlement (RTGS)

(iii) Electronic Funds Transfer (CFT)

(iv) Electronic Clearing Service

(v) Automatic Teller Machine (ATM)

(vi) Point of Sale Terminal

(vii) Tele Banking

(viii) Online Banking

(ix) Mobile Banking

(x) Electronic Data Interchange (EDI)

5. Commercial Banks play a significant role in economic growth and development of developing countries like India. Banks lubricate the entire monetary and Financial System and ensure smooth operation. Commercial Banks are the nerve-centre of the capital market, industrial and trading activities of a country. The commercial banks are the most important financial institutions and play an important role in the economic development of a country.

Following observations highlight the role of commercial banks in economic development.

(i) Helpful in mobilisation of saving.

(ii) Assist in Innovations - Innovation stimulate the process of growth and development through new technology, discovery of new markets for the existing products and new products for existing markets.

(iii) Role in implementation of Monetary Policy.

(iv) Banks influence the interest rates.

(v) Helpful in the development of priority sectors.

(vi) Directing funds into desired channels.

(vii) Helpful in productive activities and Export.

(viii) Implementation of the policies of the Government.

6. Good Banking System of a country play very significant role in the process of its economic development. Those are the following characteristics of a good Banking System.

(i) Those must be suitable to economic conditions of a country.

(ii) A good banking system should have a sound financial basis.

(iii) Should be helpful in mobilisation of savings.

(iv) There must be flow of controlled credit.

(v) A Good Banking System should provide Uniform Policies to need and requirements of country.

(vi) A Good Banking system should be well Co-ordinated system of banking.

(vii) A good banking system be exposed to modernisation with a view to stimulate dynamism in its functioning.

7. Every year the Commercial Banks are required to prepare its income statement or Profit and Loss Account only in the prescribed format known as Form B of Schedule-III attached to the Banking Regulation Act, 1949. The Form B has been revised w.e.f. 1st April, 1991 and since then the Profit and Loss Account of Bank for the year ending March 31, 1992.

Expenditure items are :

(A) Interest Expended - Schedule 15

(i) Interest on deposit - on all type of deposit including deposits from banks and other institution.

(ii) Interest on Reserve Bank of India / Inter Bank borrowings.

(iii) Others - includes discount / interest on all borrowing and refinance from financial institution.

(B) Operating expenses - schedule 16.

(i) Payments to and provisions for employees

(ii) Rent, taxes and lighting

(iii) Printing and stationery

(iv) Advertisement and Publicity

(v) Depreciation on Bank's property

(vi) Director's Fees, allowances and Expenses

(vii) Auditor's Fees and Expenses

(viii) Law Charges

(ix) Postage, Telephone Rent

(x) Repair and Maintenance

(xi) Insurance

(xii) Other expenditure not included in any of other head, like licence fees, donation, subscription to papers, periodical, entertainment expenses, travel expenses.

8. Balance Sheet shows the Financial position of a business establishment. It is considered as financial status of a bank. This depicts complete detail about its' assets and liabilities.

A balance sheet has Five schedules (Form 1 to 5) in respect of liabilities and Seven Schedules (From 6 to 12) in respect of assets.

Form 'A'

Third Schedule : Form of Balance Sheet

Balance Sheet as on 31st March ....

Particulars	Schedule	Current Year	Previous Year
CAPITAL AND LIABILITIES			
Capital	1		
Reserve and Surplus	2		
Deposits	3		
Borrowings	4		
Other Liabilities and Provisions	5		
	Total		
ASSETS			
Cash in hand and Balance with RBI	6		
Balance with banks and money at			
Call and Short Notice	7		
Investment	8		
Advances	9		
Fixed Assets	10		
Other Assets	11		
	Total		
Contingent Liabilities Bills for Collection	12		

9. Creation of Credit is the Power of Bank to multiply loans and advances by creating deposits. The bank can multiply a given amount of cash on primary deposit to many times of credit or derivative deposit. The ratio of total derivative deposits to the total primary deposit of a bank is called credit multiplier.

Primary deposits are created by a bank in the name of customer who deposits the cash or cheque in the bank. Some percentage of deposit is kept in cash which is known as Cash Reserve Ratio (CRR). This deposit is passive in nature. Cash kept idle is meant for meeting the customer requirement for drawal.

Again when a loan is sanctioned to a customer, the customer is not paid the amount in cash but the amount is credited to customer's account. In this way the customer or borrower acquire a claim against the bank. For example A has deposited Rs.20,000 in a bank. The amount of deposit is known as primary deposit. If the banker maintains a cash reserve of 10% of deposit which amounts to Rs.2,000 and lend out the balance of Rs.18,000/- to B for which the bank will open an account in his name ad credit the amount which is known as secondary or derivative deposit.

Now the bank has a total deposit of Rs.38,000/ -, though the actual cash deposit is 20,000. The extra Rs18,000/- is known as bank money and only in pen and paper. At this stage the balance sheet would appear as

Liabilities	Rs.	Asset	Rs.
Deposits	20,000	Cash in hand	20,000
Deposits (Credit balance of B)	18,000	Loans	18,000
	38,000		**38,000**

Now the bank can advance a loan maximum Rs. 16,200/- after deducting further CRR of 10%. If the said amount is advanced to C, the bank opens an account in his name and credit the amount to his account. Total deposit increased to Rs.54,2000/- (i.e. A initial deposit 20,000 + B's derivative deposit 18,000 + C's derivative deposit 16,200) and the loan amount of to 34,200/- (i.e. Loan to B 18,000 + Loan to C 16,200). In this way the process continues till credit created comes to Rs. 1,80,000/-. Thus it is 10 times. So in this case the credit multiplier is ten.

$$\text{Credit Multiplier} = \frac{1}{\text{Cash Reserve Ratio}}$$

$$= \frac{1}{10\%} = 10.$$

Credit Multiplier and CRR are inversely proportionate. Thus it is the controlling mechanism of credit.

10. The individual banks or banking system as a whole can create credit. But the power to create credit is restricted by the following factors :

(a) Volume of Primary deposit - If it is more, the volume of credit creation will be more as the derivative deposits depend upon the primary deposit.

(b) Cash Reserve Ratio - If CRR is less, the volume of credit creation will be more and vice-versa.

(c) Extra drain - Credit creation assumes that a bank advances loan by the full amount of excess cash reserve. If it does not happen credit creation is affected.

(d) Banking habit of people - If the people conduct most of the business transaction in cash instead of cheque, the power of credit creation is reduced. Again when there is frequent withdrawal of cash, CRR is automatically depleted affecting the credit creation.

(e) Bank's Reserves with RBI - Every Commercial Bank is required to keep certain cash as reserves with RBI. This will affect the credit creation.

(f) Statutory Liquidity Ratio (SLR) - Commercial Bank of India are required to keep (as per law) a certain percentage of their assets in a rear-liquid form. This will affect the lendable resources and this credit creation is affected.

(g) Monetary Policy of Central Bank - Credit control mechanism of changing such as bank rate and open market operation will make expansion and contraction of credit by commercial bank.

(h) Availability of Collateral Securities - Collateral Securities such as share, stock, bills, bonds etc. availability will enable the bank granting loan. Otherwise it may influence the loan and thus credit will be restricted.

(i) Cash transaction - This will affect the credit creation. Depending upon money supply the credit creation is affected.

(j) Business Condition - During the prosperity people borrow more as there is a greater scope for profitable investment, conversely, during the period of depression the business and industrialists are less inclined to borrow from he bank. Thus, the power of credit creation by commercial banks increases during prosperity and decreases during depression.

11. Portfolio Management can be defined as the art of selecting appropriate securities and adopting the right investment policies that should ensure maximum return with minimum risk. Portfolio management means managing investments in the form of bonds, share, mutual fund in such a way that maximum profit is earned within the stipulated time frame with minimum of risk.

Objectives - Followings are the main objectives of portfolio Management :

(a) Liquidity - Liquidity is the capacity of the bank to make cash available on claims for payment.

The part of total assets required to be maintained as liquid assets will be guided by the following factors :

(i) Ownership of demand deposits

(ii) Liquid Reserves

(iii) Banking habit

(iv) Seasonal requirement

(v) Structure of banking

(vi) State of money market

(b) Solvency - It is the capacity of the bank, to meet its liabilities in the long run. Following factors affect the solvency of the bank.

(i) Loss or misappropriation of assets

(ii) Risk of default

(iii) Risk of changes in interest rate

(c) Income or Profit - The bank must earn sufficient income to meet its' day to day expenses and a reasonable return for the owners in form of dividend.

12. Various Theories of approaches to portfolio management are :

(a) Traditional Theory : This theory is also known as 'Banking Theory' and 'Real Bills Doctrine'. According to this theory, the commercial banks should give only short term. Productive and self liquidating loans. This theory advocates investment in short-term securities or lending for the purpose of working capital requirement.

(b) Shiftability Theory - This theory advocates the liquidity does not depend upon the short-term maturity but on shiftability of the investment. If the long term investment could be easily shifted to the assets portfolio of other banks, it will not affect adversely the liquidity of the bank.

(c) Anticipated Income Theory - According to this approach, the bank is to maintain liquidity on the basis of anticipated income of a borrower rather than on the basis of the maturity or shiftability of investment.

(d) Liquidity Management Theory - This theory emphasizes the profit maximisation and substantially undermines the need for maintaining large cash reserves and self liquidity advances.

13. Nationalisation means a process that a Government adopts for taking over the ownership and control of any privately owned organisation or entity that it considers essential in the best interests of the public and nation.

The particular objectives of nationalised banks as stated by the Prime Minister Mrs. Indira Gandhi are as follows :

(i) To mobilise the savings of the people to the maximum possible extent and to use them for productive purposes.

(ii) To ensure the operations of the banking system for a large social purpose.

(iii) To meet the legitimate need of private sector industry and trade.

(iv) To meet the needs of productive sector of economy particularly farmers, SSI and Self employed professional.

(v) To actively poster of growth of new and progressive entrepreneurs.

(vi) To arrange credit opportunities for the development of neglected and backward areas.

(vii) To check the use of Bank Credit.

(viii) To develop adequate professional management.

(ix) To provide training and reasonable terms of services to the bank staff.

(x) To expand the network of branches of banks.

(xi) To reduce regional and sectoral imbalances in banking.

14. In 1969 14 major commercial banks having deposit of more than Rs.50 crores and in 1980 6 more commercial banks having more than Rs. 200 crores of reserves were nationalised due to the following reasons or grounds.

(i) To safeguard the interest of nation - Primarily privately owned banks were used to promote and protect to financial interest of owner and thus the interest of nation was ignored. Thus the steps are taken to safeguard the nation's interest or priority basis.

(ii) To remove class based banking - Lending practice to the mass was ignored. Thus the nationalisation was made to provide the service to the mass.

(iii) Concentrated in big cities - Those privately owned banks which were nationalised had banking operation mostly in metro and big cities.

(iv) Rural India totally ignored - Vast majority of people living in rural areas had no access to banking services as these banks considered in rural areas highly expensive and unfortitable.

(v) Total negligence of credit needs of important sectors - Important sectors like agriculture, cottage and small industries, small traders, handloom and handicraft sectors who badly needed credit, no attention was paid to them.

(vi) Unhealthy practices - Being privately owned and very much profit minded, many of the banks wee adopting many kinds of unhealthy practices in handling finance that was detrimental for the interest of nations.

Hence for the reasons stated above slowly mounted up for nationalisation of the leading privately owned banks in 1969 and 1980.

15. As a result of bank nationalisation, the nation has been benefitted in the following ways :

(i) Effective instrument of socio-economic change - Commercial banks have become very powerful instruments of socio-economic transformation.

(ii) Massive expansion of branches - The banking services have been extended almost all areas of the nation with the massive expansion of bank branches.

(iii) Grater Financial Inclusion - With banking service made available everywhere, more and more people are making use of baking services. So class banking has turned into mass banking.

(iv) Greater care of priority sectors - Certain important sectors like agriculture, industries and small traders, artisan, transport operator etc. have been declared as priority sectors and are given more importance and preference in getting credit.

(v) Creation of more jobs.

(vi) Better Banking Services - There has been substantial improvement in the banking services provided to the customers. Many type of technology based services through e-banking services are now made available.

(vii) Expansion of Credit - With more of financial inclusion and massive expansion of banking services, there has been a spectular increase in the volume of credit being flown to different sectors.

UNIT-II

KEY CONCEPTS

CENTRAL BANK - Functions, Methods of Credit Control, Quantitative Control, Bank Rate, Open Market Operations, Cash Reserve Ratio and Selective Control.

INNOVATIVE BANKING - Merchant Banking, Consortium Approach, Credit Card Facilities, Online Banking, Telephone Banking, Internet Banking, ATM Cum Debit Card, E-Banking and Social Responsibilities of Banks.

- Central Bank is the supreme monetary institution and is at the top of the monetary and banking structure of a country. It is the leader of the money market and controls, regulates and supervises the activities of commercial banks and other financial institution. It is the central monetary authority which manages the currency and credit policy of the country and functions as a banker to the Government as well as to all commercial banks.
- **Essential features of Central Bank**

  Followings are essential features of Central banking :

(a) It is the apex bank of a country

(b) It is statutorily established

(c) It controls and regulates the entire banking system of a country.

(d) It is empowered to control and regulates the volume of currency and credit.

(e) It acts as the banker to all commercial banks as well as of the Government.

(f) It plays a significant role for the overall economic development and growth of the country.

- **Functions of the Central Bank**

  Broadly divided into two parts

(A) Traditional Functions

(i) Monopoly of Note-issue

(ii) Banker, Agent and Advisor to the Government

(iii) Banker's Bank

(iv) Lender of the last resort

(v) Clearing agent

(vi) Controller of credit and money supply - Control the credit and money supply by adopting different measures of Credit Control such as Bank Rate, Open Market Operation, Cash Reserve Ratio (CRR) and Selecting Credit Control such as changing the margin requirement of loan, rationing of credit through publicity and moral persuasion.

(vii) Custodian of National Reserve (Gold and Foreign exchange).

(viii) Maintenance of Exchange rate.

(B) Developmental Functions :

(i) Development Specialised Financial Institution - Such as Industrial Development Bank of India (IDBI).

National Banks for Agriculture and Rural Development (NABARD).

(ii) Influencing Money market and capital market.

(iii) Collecting and disseminating statistical data.

- **Methods of Credit Control**

  Broadly classified into two broad categories :

(A) Quantitative methods credit control and

(B) Qualitative methods of credit control or selective credit control.

(A) Quantitative - To regulate the volume of bank advances - use of any one or all of the following methods :

(i) Bank rate policy

(ii) Open market operation

(iii) Variation of Cash Reserve Ratio.

(B) Qualitative Credit Control - To exercise control over credit.

(i) Fixation of margin requirements.

(ii) Rationing of credit :

   (a) Variable portfolio ceiling

   (b) Variable capital assets ratio

(iii) Regulation of consumer credit.

(iv) Control through directives :

   (a) To control lending policies of the banks.

   (b) To prevent the flow of credit to non-essential lines.

   (c) To divert the credit for productive and essential purposes.

   (d) To fix maximum credit for certain purposes.

(v) Moral influences

(vi) Publicity

(vii) Direct Action

- **Innovative Banking**

  Innovative Banking refers to a type and trend of banking where always the thrust is given on exploring new products and services and methods of operation to become customer - friendly and at the same time developing good banking relationships with all the stakeholders.

Some of the innovations in banking sector are :

(a) Merchant Banking

(b) Consortium approach of finance

(c) Credit card

(d) ATM-Cum-Debit Card

(e) E-Banking

(f) Online and internet banking services

(g) Telephone and Mobile Banking Services

(h) Transfer of Funds through RTGS and NEFT facilities.

- **Social Responsibilities of Banks**

  It is moral obligation of banks towards the society. Corporate Social Responsibility is a concept where by the companies decide to contribute for a better society and cleaner environment.

  Some of the activities of the banks which contribute towards a part of social responsibilities are discussed below :

(a) Rural Branch Expansion

(b) Priority Sector Lending

(c) Environmental Protection

(d) Education

(e) Community Welfare

(f) Women empowerment

(g) Farmer Welfare.

UNIT - II

GROUP - A : OBJECTIVE TYPE QUESTIONS

1. From the following alternatives given below in each bit choose the correct answer.

1. The year Reserve Bank of India established was :
   (a) 1945 (b) 1947
   (c) 1935 (d) 1953

2. The Bank that enjoys monopoly power of note-issue is
   (a) NABARD
   (b) Commercial Bank
   (c) Regional Rural Bank
   (d) Central Bank

3. The Bank that funcions as lender of the last reasort :
   (a) Commercial Bank
   (b) Regional Reural Bank
   (c) Industrial Bank
   (d) Central Bank

4. The authority whose signature appears in 100 - rupee not in India is
   (a) Finance Minister
   (b) Governor of Reserve Bank of India
   (c) Finance Secretary
   (d) Deputy Governor of RBI

5. One of the functions not performed by the central bank is :
   (a) Bankers' Bank
   (b) Banker to Government
   (c) Lender of the last resort
   (d) Banker to the public

6. Head Office of RBI is situated at :
   (a) Chennai (b) Mumbai
   (c) Kolkata (d) New Delhi

7. The Cash Reserve Ratio is to be maintained by commercial banks in the form of :
   (a) Cash in hand at Branches
   (b) Balance with other Banks
   (c) Balance in a special account with RBI
   (d) Funds in the Currency chest

8. The full form of 'CRR' as used in banking sector is :
   (a) Crucial Reserve Rate
   (b) Compulsory Reserve Rate
   (c) Credit and Reserve Ratio
   (d) Cash Reserve Ratio

9. Of the following, the Bank which is called as the Banker's Bank in India.
   (a) SBI
   (b) Central Bank of India
   (c) RBI
   (d) NABARD

10. The Central Bank in the United State is :
    (a) Bank of America
    (b) The Federal Reserve
    (c) The U.S. Treasury
    (d) The Bank of United States

11. One monopoly that the modern central banks have is :
    (a) Regulating Other Banks
    (b) Advancing Loans to Banks
    (c) Issuing Government Securities
    (d) Issuing Currency Notes

12. Whenever the Central Bank does some open market operation transaction, actually it wishes to regulate.
    (a) Inflation only
    (b) Credit creation capacity of Commercial Bank
    (c) Borrowing Powr of Commercial Banks
    (d) Flow of Foreign Direct Investment

13. RBI was natioalised in the year :
    (a) 1947 (b) 1948
    (c) 1949 (d) 1950

14. Increasing Cash Reserve Ratio by the Central Bank leads to
    (a) Decrease the ddeposit with the Commercial Banks
    (b) Increase the deposit with Commercial Banks
    (c) Increase the lendable reserve with Commercial Banks
    (d) Decrease the lendable reserve with Commercial Banks

15. Of the following, the one which is not a functions of RBi is :
    (a) To assume the responsibility of note - issue
    (b) To hold cash reserves of Commercial Banks and make available financial accomodation to them
    (c) To assume the responsibility of all banking operations of the Government
    (d) To assume the responsibility of statistical analysis of data related to macro economy of India.

16. When the Central Bank conducts sale of securities, the cash reserves of the Commercial Banks shall :
    (a) Increase
    (b) Decrease
    (c) Remain Constant
    (d) Neither increase nor decrease

17. The most correct illustratoin showing the imlication of "Lender of the lat Resort" is:
    (a) If a prson or firm which is eligible to get a loan does not get it from any commercial bank, may approach to RBI for loan.
    (b) If the State Government are in crisis and need money for short-term, they can approach RBI for the purpose.
    (c) If a Commercial Bank is in crisis, it may place its reasonable demand for accomodation to RBI.
    (d) Whenever the Government delares a debt relief, the RBI will have to bear it.

18. RBI takes certain steps to curb the menance of inflation. In this context, among the followig that one does not help RBI in controlling the inflation in the country is :
    (a) An increase in Bank Rate
    (b) An increase in the Cash Reserve Ratio requirements
    (c) A purchae of securities in the open market
    (d) A slae of securities in the open market

19. The primary function of the Reserve Bank of India is to regulate the issue of
    (a) Loans (b) Advances
    (c) Bank Notes (d) Interest

20. The process of direct buying and selling of securities and bills in the money market by Reserve Bank in known as
    (a) Bank Rate Policy
    (b) Open Market Operation
    (c) Cash Reserve Ratio
    (d) None of the above

21. What is Bank rate ?
    (a) Interest rate charged by the banks on loan
    (b) The rate of which the Central Bank discount the bills of Commercial Banks
    (c) Interest rate on deposits
    (d) Rate of interest on Inter-Bank transactoin

22. Which of the following measures help the Public borrowing policy of the government ?
    (a) Bank rate policy
    (b) Open market opeation
    (c) Variable Cash Reserve Ratio
    (d) Selective Credit Control

23. Which of the following is not a selective method of credit control ?
    (a) Margin Requirement
    (b) Moral Suasion
    (c) Secondary Reserve Requirement
    (d) Rationing of Credit

24. Which of the following methods of Credit Control is more direct and powerful ?
    (a) Bank Rate Policy
    (b) Variable CRR
    (c) Open Market Operation
    (d) Fixation of Margin Requirement

25. The various innovation in banking sector does not include :
    (a) Debit and Credit Cards
    (b) Internet Banking
    (c) Advancing Loans to the Customers
    (d) Telephone Banking

26. Merchant Banking does not deal with :
    (a) Accepting deposits from customers
    (b) Portfolio Management
    (c) Financial Advice
    (d) Securities Management

27. Of the following which is known as plastic money is :
    (a) Bearer cheques (b) Credit Cards
    (c) Demand Drafts (d) Gift Cheques

28. NEFT Means :
    (a) National Electronic Funds Transfer
    (b) National Efficient Funds Transfer
    (c) Negotiated Efficient Funds Transfer
    (d) Negotiated Electronic Foregin Transfer

29. Merchant Banking activity in India was originated in :
    (a) 1970 (b) 1972
    (c) 1967 (d) 1978

30. A merchant bank is a financial institution conducting money market activities and deals with :
    (a) Securities Management
    (b) Underwriting and Financial Advice
    (c) Portfolio Management
    (d) All of the above

31. State Bank of India set up a separate division for merchant banking services in :
    (a) 1972 (b) 1967
    (c) 1970 (d) 1987

32. In India, Merchant banking activity was originated by :
    (a) Barelays Bank (b) Grindlays Bank
    (c) Bank of America (d) American Express

33. Time period during which no interest is charged on a Credit Card is called :
    (a) Grace Period (b) Term Period
    (c) Loan Period (d) Sanction Period

34. Banking Services delivered to a Customer by mans of a Computer System with internet-facility is called :
(a) Universal Banking
(b) Internet Banking
(c) Merchant Banking
(d) Branch Banking

35. Of the following which does not come under E-Banking is :
(a) Electronic Fund Transfer
(b) Automated Teller Machine
(c) Credit Card
(d) Overdraft

36. The need for merchant banking growse due to :
(a) Growing Complexities of the Corporate World
(b) Dearth of Capital
(c) Increased Competition
(d) All of the above

37. Which of the following is not a function of merchant bank ?
(a) Accepting deposit
(b) Corporate counselling
(c) Raising of fund
(d) Providing ventue capital

38. E-Banking covers :
(a) Internet Banking
(b) Online Banking
(c) Mobile Banking
(d) All of the above

39. Credit Syndication is known as
(a) Loan syndication (b) Term Loan
(c) Cash Credit (d) CRR

40. Credit Syndication helps in
(a) Controlling the Credit Sanctioning
(b) Negotiating on behalf of the Customer
(c) Assisting in the process of Funds Withdrawal
(d) All of the above

41. An arrangement in which a firm can use the assets without buying it
(a) Hire Purchase
(b) Leasing
(c) Bank Finance
(d) None of the above

42. A Banking arrangement where a borrower avails of financing facilities from more than one bank is termed as :
(a) Unit Banking
(b) Multiple Banking
(c) Chain Banking
(d) Leasing

43. Mobile Banking Provides
(a) Mini-statements and checking of account history
(b) Alerts on account activity or passing of set thresholds
(c) Monitoring of term deposits
(d) All of the above

44. A system where Banking activitis are performed ovr phone is known as :
(a) Mobile Banking
(b) Telephone Banking
(c) Multiple Banking
(d) None of the above

45. E-Banking helps in performing
(a) Centralised Banking Solutions
(b) Online Tax Payment
(c) Corporate Internet Banking
(d) All of the above

2. Do as Directed Questions

2 (a) Answer the following questions in one sentence each.

1. Define Central Bank.
2. Which do you mean by monopoly of note issue of Central Bank ?
3. What do you mean by Lender of last resort ?
4. What do you mean by Credit Control ?
5. What is Bank Rate Policy of Central Bank ?
6. What do you mean by open market operation ?
7. What is Margin Requirement on Secured Loan ?
8. What is Moral Suasion ?
9. What do you mean by Merchant Banking ?
10. What is Consortium Finance ?
11. What is On-line Banking ?
12. What is Telephone Banking ?
13. What is PIN (Personal Identification Number)?
14. What is Add-on Credit Card ?
15. What do you mean by Social Responsibilities of Banks ?

2 (b) Express the following in one word / term each.

1. The bank regarded as the 'Central Bank' of India.
2. The year of Natoinalisation of Reserve Bank of India.
3. Fixing maximum limit of loans and advances to be made by a Commercial Bank.
4. Keeping a minimum percentage of the deposit at Central Bank by Commercial Banks.
5. The system adopted for issue of bank notes by Reserve Bank in India is
6. The authority issuing one-rupee coins in India.
7. The Bank known as the banker.
8. The Foreign Bank in started the merchant banking services in India in 1997.
9. The year in which State Bank of India set up a separate division for merchant banking services.
10. The time period during which no interest is charged on a Credit Card.
11. The card which is issued by a bank to its customers to withdraw money through ATM and to make payment for the purchase of goods or services at any time.
12. The electronic banking system enabling the customers of a bank to perform a range of financial transactions through bank's website.
13. The banking approach in which, the group of banks may work under a common agreement is.
14. A system used by the Commercial Banks for transfer of funds from one bank to another bank or a 'real time' and 'gross basis' is called.
15. Cards which are considered as plastic money acts as a credit instrument is termed as.

2 (c) Correct the underlined portion of the following sentences.

1. State Bank of India is the apex bank in India.
2. Central Government enjoy the monopoly power of note issue.
3. Head Office of RBI is situated in New Delhi.
4. Rationing of Credit is a method of Quantitative Credit Control.
5. Bank rate policy is a method of selective credit control.
6. In the periods of inflation, the Central Bank desires to encourage the Commercial Banks to create more credit.
7. The Government of Reserve Bank Works as the President of the Central Board of Directors of the Bank.
8. Credit Control refers to direct buying and selling of securities and bills in the money market by the reserve bank.
9. State Bank of India set up a separate merchant banking division in 1967.
10. Banking Services delivered to a customer by means of a Computer Control System with internet facility at the residence of the customer is called Merchant Banking.
11. Commercial banking activities include security management, portfolio management, underwriting and insurance, financial advice, project conselling etc.
12. Debit card is issued by a bank to provide credit facility to its customers.
13. Credit card is issued by a bank to its customers to withdraw money through ATM and to make a payment for the purchae of goods or services at any time.
14. Internet banking is a service provided by a bank enabling it's customers to perform financial transactions over telephone.
15. The full form of NEFT is Net electronic Funds Transfer.

2 (d) Fill in the blanks.

1. Reserve Bank of India is the ______ Bank of India.
2. The Signature of ______ appears on one hundred rupee note in India.
3. In periods of ______ RBI encourages commercial banks to create more credit.
4. Increasing cash Reserve Ratio by Central Banks leads to ______ in lendable resources with commercial banks.
5. Central Bank exercise ______ control through CRR.
6. When Central Bank wants to reduce credit, it will ______ CRR.
7. In times of ______ and Unfavourable balance of trade, the Central Bank raises the bank rate.
8. ______ refer to buying and selling of secruties, bills and bonds of Government as well as Private Financial Institutions by the Central Bank.
9. When Central Bank wants to ____ the volume of credit, it starts buying the securities from the open marekt.
10. Bank Rate Policy is one of the ______ Credit Control methods.
11. An ATM-Cum-Debit Cards is used to withdraw money at any time through an ______.
12. ______ refers to electronic banking.
13. ______ Banks Work as a promoter of industrial enterprises in India.
14. Credit Control in a specified channel with regard to a specified class of borrowrs is termed as ______.
15. ______ is the custodian of country's resources of gold and foreign exchange.

UNIT - II

GROUP - A : ANSWERS

1. *From the following alternatives given below in each bit choose the correct answer.*

1. (c) 1935
2. (d) Central Bank
3. (d) Central Bank
4. (b) Governor of Reserve Bank of India
5. (d) Banker to the public
6. (b) Mumbai
7. (c) Balance in a special account with RBI
8. (d) Cash Reserve Ratio
9. (c) RBI
10. (b) The Federal Reserve
11. (d) Issuing Currency Notes
12. (b) Credit creation capacity of Commercial Bank
13. (c) 1949
14. (d) Decrease the lendable reserve with Commercial Banks
15. (d) To assume the responsibility of statistical analysis of data related to macro economy of India.
16. (b) Decrease
17. (c) If a Commercial Bank is in crisis, it may place its reasonable demand for accomodation to RBI.
18. (c) A purchase of securities in the open market
19. (c) Bank Notes
20. (b) Open Market Operation
21. (b) The rate of which the Central Bank rediscount the bills of Commercial Banks
22. (b) Open market opeation
23. (c) Secondary Reserve Requirement
24. (b) Variable CRR
25. (c) Advancing Loans to the Customers
26. (a) Accepting deposits from customers
27. (b) Credit Cards
28. (a) National Electronic Funds Transfer
29. (c) 1967
30. (d) All of the above
31. (a) 1972
32. (b) Grindlays Bank
33. (a) Grace Period
34. (b) Internet Banking
35. (d) Overdraft
36. (d) All of the above
37. (a) Accepting deposit
38. (d) All of the above
39. (a) Loan syndication
40. (d) All of the above
41. (b) Leasing
42. (b) Multiple Banking
43. (d) All of the above
44. (b) Telephone Banking
45. (d) All of the above

2. Do as Directed Questions

2 (a) Answer the following questions in one sentence each.

1. Central Bank is the supreme monetary institution and is at top of the monetary and banking structure of a country.
2. It is the function of Central Bank who has power to print and issue the currency notes throughout the country.
3. When the commercial banks are not able to meet their financial requirement from any other sources, they can, as a last resort, approach the central bank for credit facilities.
4. It is process of restricting, regulating and chanelising the credit to the productive purpose.
5. It is the rate at which the central bank re-discounts the first class bills of exchange brought to it by the Commercial Banks.
6. It is deliberate buying or selling of eligible securities by the central bank in the money market in order to influence the total volume of credit in the economy.
7. Commercial Bank is allowed by Central bank to give loan only a part of the market value of the securities offered to its customer at the time of lending.
8. It is act of advice, request and persuasion of central bank to commercial banks to implement its credit policies.
9. Merchant Banks are the financial institutions who cater the multifarious needs of corporate firms.
10. It refers to a combination of a group of banks who have agreed to extend large share of credit.
11. This is a process of banking transactions which are conducted through internet.
12. This is banking facilities were telephone (mobile) is used for performing balance enquiry and transaction and transfer of funds.
13. It is a secret 4-digit number shared between the customer and the system.
14. An add-on credit is a supplementary Credit Card offered to close relatives such as parents, spouse and children (above 18 years).
15. It is the moral obligation of banks towards society.

2 (b) Express the following in one word / term each.

1. Reserve Bank of India (RBI)
2. 1949
3. Rationing of Credit
4. Cash Reserve Ratio
5. Minimum Reserve System
6. Central Government
7. Central Bank
8. Grindlay Bank
9. 1972
10. Grace Period
11. Debit Card
12. E-Banking /Online Banking /Internet Banking
13. Consortium Banking Approach
14. Real Time Gross Settlement (RTGS)
15. Credit Cards

2 (c) Correct the underlined portion of the following sentences.

1. Reserve Bank of India (RBI)
2. RBI
3. Mumbai
4. Selective
5. Quantitative
6. Depression
7. Chairman
8. Open Market Operations
9. 1972
10. Internet Banking
11. Merchant
12. Credit
13. Debit
14. Telephone
15. National

2 (d) Fill in the blanks.

1. Central
2. Government of RBI
3. Depression
4. Decrease
5. Credit
6. Increase
7. Rising Prices
8. Open Market Operation
9. Expand
10. Quantitative
11. ATM
12. E-Banking
13. Merchant
14. Selective Credit Control
15. Central Bank

UNIT - II

GROUP - B : SHORT TYPE QUESTIONS

3. Answer the following questions within 30 words each.

1. What do you mean by 'Central Bank of India' ?
2. What do you mean by monopoly of Note-issue ?
3. Why the Central Bank is considered as Banker, Agent and Advisor to the Government ?
4. Why Central Bank is considered as Banker's Bank ?
5. What do you mean by Lender of last resort ?
6. How Central Bank Acts as clearing agent of Commercial Banks ?
7. How Bank Rate is used to Control Credit ?
8. How open market operation will influence the credit creation of banks ?
9. How Cash Reserve Ratio is used to control over credit ?
10. What do you mean by Custodian of National Reserve ?
11. What do you mean by Quantitative methods of Credit Control ?
12. What are tools of Quantitative methods of Credit Control ?
13. What do you mean by Qualitative methods of credit control ?
14. What are the events proceeded by rise in the bank rate ?
15. What do you mean by Fixation of margin requirement ?
16. What do you mean by variable portfolio ceiling ?
17. What do you mean by variable capital assets ratio ?
18. How Central Bank regulate Consumer Credit ?
19. What are the objectives of issuing directives to Commercial Bank by Central Bank to Control Credit ?
20. What do you mean by moral suson methods of Qualitative Credit Control ?
21. What are direct action taken by Central Bank to Control Credit ?
22. What do you mean by innovative Banking ?
23. What are the areas of innovation in banking sector ?
24. What are the concerned areas of merchant banking ?
25. Give fundamental difference between merchant and commercial banking ?
26. Who provides merchant banking services in India ?
27. What are the counselling areas of merchant bank ?
28. What do you mean by project counselling of merchant bank ?
29. How the merchant bank extends suggestion to the portfolio management ?
30. What is Consortium Finance ?
31. What is concept of "Lead Bank" scheme in consortium approach of Financing ?
32. What is Credit Card ?
33. What is Add-on Credit Card ?
34. How Add-on Credit Card is operated ?

35. How Credit Card is useful if you need to buy something expensive that cannot be affordable to pay for at once ?
36. What do you mean by ATM-Cum-Debit Card ?
37. What are restrictions in the use of ATM ?
38. What is Security Feature of ATM Card ?
39. What is E-Banking ?
40. What are the requirement of online banking for use ?
41. What do you mean by Real Time Gross Settlement (RTGS) ?
42. What is National Electronic Funds Transfer (NEFT) ?
43. What do you mean by Social responsibility ?
44. Why the society bank has to render social responsibility ?
45. What are different priority sectors lending as social responsibility ?

4. *Answer the following questions within 50 words each.*

1. Mention the essential features of Central Bank.
2. What are the areas of traditional functions of Central Bank ?
3. Why the Central Bank is considered as Banker's Bank ?
4. Why the Central Bank is considered as lender of last resort to Commercial Banks ?
5. How open market operation affects the credit creation of the banks ?
6. How the Central Bank helps to develop specialised Financial Institutions ?
7. Why Reserve Bank of India Publishes Bulletin to disseminate statistical data ?
8. Why Qualitative methods of credit control is called as selective credit control ?
9. How selective credit control restricts the freedom of borrowers and lenders ?
10. Why minimum cash reserve ratio may not be beneficial to all region of the wanting ?
11. Discuss the mechanism Bank Rate Policy on Credit Control.
12. Discuss the effects of open market operation in credit control.
13. How margin requirement on Secured Loans will influence the Credit ?
14. How Credit can be controlled through mechanism of rationing of credit ?
15. How moral persuasion by Central bank will influence credit control ?
16. Why innovation in Banking is necessary ?
17. What are activities of Merchant Banking ?
18. Mention the consortium approach of Financing.
19. What are the rationale behind Consortium Financing ?
20. What are main features of credit card ?
21. What are disadvantages of using credit card ?
22. Mention the different uses of ATM-Cum-Debit Card besides withdrawal of cash.
23. What are popular services covered under e-banking ?
24. What are disadvantages of online/Internet Banking ?
25. Why there is social responsibility of bank ?

UNIT - II

GROUP - B : ANSWERS

3. Answer the following questions within 30 words each.

1. It is the apex bank which plays a leading role in organising, supervising and regulating the monetary and financial system of India.
2. It is the sole right of central bank to print and issue currency notes in order to secure control over volume of currency and credit.
3. Central Bank keeps cash balance of Govt in current Account, makes payments or behalf also gives loans and advance and gives advices or economic financial and fiscal matter.
4. This is go an central bank acts as custodian of cash reserve of commercial bank, lender of last resort and also acts as clearing agent of those.
5. Central bank guarantees solvency and provides financial help to commercial bank as lender of last resort by redisurmiting their eligible securities and bills of exchange and provide loan against then.
6. Since the commercial banks have their accounts with central bank. The central bank can easily settle the claims of the various banks against each other with least use of cash.
7. By making the variation of bank rate the central bank ensure the need of economy either by lowering bank rate for expansion or by raising the same for contractor.
8. The buying and selling of securities by the central bank results in increase or decrease in cash resources of commercial banks and this the credit creation is affected .
9. By increasing Cash Reserve Ratio (CRR) the credit is reduced and in other hand by reducing CRR the central bank wants to increase the flow of credit.
10. Central banks taken the appropriate reassure to safe guard the resources of Gold and foreign exchange .All foreign currency received by citizen have to be deposited and payment seeks the approval.
11. In order to control of credit the regulation of the quantity of credit is made. Either by encouraging more or ease advance mechanism of credit control is made.
12. Techniques of Quantitative methods of credit control are Bank Rate policy, open Market operation and variation of cash Reserve Ratio. Those are can be exercised either individually or by all.
13. This is the flow of credit by discriminating the productive and unproductive purposes. In this method, the credit is made available for the productive and priority sectors.
14. The events, proceeded due to rise is bank rate, are over supply of money, adverse rate of exchange, mounting demand for money and unfavourable balance of made.
15. The central bank prescribe the margin which banks and other under must maintain for the loans garnished against commodities, stocks and shares.

16. In this method, the central bank fixes a ceiling or the aggregate portfolio of banks above which loan should not be sanctioed.

17. Under this method, the central bank can fix a ratio in which the capital of a bank must bear to the volume of total assess.

18. This can be regulated by fixing "down payments" and the period over which the instalment are to be spread over for durable consumer goods or instalments and hire purchase basis.

19. Central banks issues the directive to control larding policies of the bank, to prevent flow of credit, to divert the credit for productive and essential purposes and limiting certain purposes.

20. Moral solution method of Qualitative credit control includes advice, request and persuasion to the commercial banks to co-operate with central bank.

21. The central bank uses this method to enforce Qualitative and selective credit control. In this method the central bank can take action against commercial Banks which violate its instruction.

22. It refers to a type and trend of banking where always the thrust is given or exploring new products and services and maintain good banking relationships with relationships stake holders.

23. The concerned areas are merchant banking, consortium approach of financing, Debit and credit card, Online/Internet banking/E -Banking, Mobile and Telephone banking and transfer of fords through RTGS / NEFT.

24. Merchant banking is the combination of banking with business and security related consultancy services. It provides consultancy to its clients on different issues and also provides advice, guidance and service.

25. A commercial bank basically accepts deposit and advances loan whereas a merchant bank provides financial and consultancy services for a consideration of a fee.

26. Large broker, commercial bank, mutual funds, venture capital companies and investment bank offer merchant banking services. In India they are required to register with SEBI. (Securities Exchange Board of India)

27. The counselling areas are providing guidance on choice of product, market survey, cost analysis, investment decisions, capital management, methods of pricing, marketing strategy, portfolio management etc.

28. It comprises of preparation of project report, verifying the technically feasibility, making cost-benefit analysis, market survey report, feasibility study, obtaining permission and license, guiding project implementation.

29. The merchant banker suggest the proprietor of investment to be made in different kind of securities - shares and debenture of other companies ensuring safety, security and profitability.

30. It refers to a combination of a group of banks who have agreed to extend large credit to a single borrower with common appraisal, documentation, supervision and execution.

31. The consortium banks elect one of the members as "Lead Bank" who does periodic meeting of members and leads in assessing found requirement, documentation setting terms and conditions.

32. Credit card is a laminated plastic card issued by Bank or non-banking finance companies to give its customers a preference to borrow funds on short-term basis.

33. This is a supplementary credit card offered to close relatives of the primary cardholder such as parents, spouse and children above 18 years of age.

34. Add-on-cards have the same utility, validity, offers and benefits associated with the primary credit card. Banks may have restrictions on the number of add-on cards.

35. If you do not have the cash in hand or even in your back account, you can pay with a credit card and then spread the cost.

36. ATM-cum-Debit Card is a plastic card issued by a bank to its customers for use at time of withdrawals, balance enquiry, making deposit and transfer of funds.

37. There are restrictions in the number of uses and an amount of withdrawal on a single day. However the amount varies from bank to bank.

38. The use of ATM is restricted to the person who possesses the card and knows the PIN (Personal Identification Number). PIN should be kept confidential at time of use.

39. E-Banking refers to transactions carried through electric banking. It is also called as "online banking" or "virtual banking". Banking services are delivered by way of computer - controlled system.

40. To access to bank's online facilities, a customer requires internet access and would need to register with bank for the service. Password and other credentials are also required.

41. Funds are transferred from one account to another account on a real time and an gross basis. Real time means immediate transfer and gross settlement means individually transferred.

42. Under this method funds are transferred on net settlement and settlement in batches rather than on individual basis. More time in comparison to RTGS, are required.

43. It is more obligations towards the society focusing areas are poverty eradication, health and medical care, rural development, self employment training.

44. Bank has to perform the social responsibility as it uses the resources of society and in return certain obligations are there for the welfare of people.

45. It means lending to agriculture cottage industries, artisan, food and agro based processing industries, education, housing etc. Those are so made for the economic developed of country.

4. Answer the following questions within 50 words each.

1. Central Bank is the apex bank which is statutory established and empowered to regulate volume of currency and credit of a country. It also acts as banker's bank for regulating and controlling entire banking system for the economic development and growth of the country.

2. The areas are circulation of money, creation of credit, regulating the activities of commercial banks, acts as banker, agent and advisor to the Government, Clearing agent, custodian of national reserve, also acts lender of last resorts to commercial bank and maintenance of exchange rate.

3. This is so on three ground

   (a) as custodian of cash reserve

   (b) as lender of last resort

   (c) as clearing agent. In this way, the central bank acts as a friend, philosopher and guide to the commercial banks.

4. Central bank guarantees solvency, and provides financial help to the commercial bank as lender of last resort by rediscounting their eligible securities and bills of exchange and by providing loans against their securities. This provision is made when commercial banks exhaust all the resonance s to supplement their funds.

5. Open market operation refers to buying and selling of eligible securities by the central bank in the money market and capital market. The buying and selling of securities by the central bank results in increase or decrease in the cash resources of the commercial banks.

6. To meet credit requirements of agriculture and rural sector the Specialised Financial institutions are developed by Central Bank. Those are IDBI (Industrial Development Bank of India), NABARD (National Bank for Agriculture and Rural Development). Those specialised Financial Institutions serve the specific sector released to Agriculture and rural business of the economy.

7. In order to help policy makers, economists and researcher, RBI periodical publish bulletin so that those can be useful for formulating different polices for making decision about economic development of the country. RBI regularly collect and analyse dates related to banking, currency, foreign exchange position.

8. The Qualitative Credit Control is called as selective credit control because it discriminate the flow of credit to productive and priority sector and restricted to others. This is very much helpful to the developing and underdeveloped economics. This is more effective without change in interest rate.

9. Selective credit control discriminates between different types of borrowers and banks. Small borrowers and small banks are hit harder by selective credit controls then the big borrowers and large banks. In this way it restricts the freedom of borrower and lenders.

10. This method is inflexible as more credit may be needed in one region where there is monetary stringency and it may be superflows in the other regions. Raising the reserve ratio for all banks is not justified in the former region though it is appropriate for latter region.

11. When bank rate is increased, credit becomes dearer as result of which commercial bank faces difficult to get credit. The businessmen and industrialist become reluctant to borrower and consequently total volume of credit is reduced. Reverse happen at the time of decrease in bank rate.

12. It directly affects the cash reserves of the commercial bank. When the central bank purchase eligible securities it increases their cash reserves. Similarly, sale of securities reduces the cash reserves of the commercial banks. Those activities in turn affect their ability to create credit.

13. The central bank prescribes the margin requirement. If the margin requirement is 40%, the commercial bank can lend upto 60% of the market value of securities. If the margin is raised, the commercial banks can lend less. Thus, central bank can increase or decrease the volume of credit.

14. The central bank can fix a limit for credit facilities available to commercial banks. The introduction of rationing makes commercial banks cautious in matter of advancing loans. The central bank allows only limited accommodation to commercial banks by way of rediscount facilities.

15. Moral persuasion is not a statutory obligation. It is merely a request to commercial banks not the apply fund for speculative activities. In recent times, central bank has used moral persuasion over other banks to get them agree to his credit control policy.

16. The banks have been trying continuously to provide better service to the business community and the general public to satisfy the growing needs of the present day life. Areas of innovation are made related to transfer of funds, internet bank, E-banking, ATM facility, credit card online banking, Telephone banking, E-Banking, merchant banking.

17. Merchant banking provides advice, guidance and service for a consideration of a fee. It helps the businessman to start a new business, to called or raise finance, to expand and modernise the existing business, to revive sick business units. The activities are wide ranging from starting to efficient running of business.

18. Under consortium approach of financing, several banks or Financial institutions provide fiancé to a single borrower with common approval, common documentation, joint supervision and follow up exercises. Each entity within the consortium is only responsible to the group in respect to the obligation of consortium contract.

19. Rationale behind consortium Financing are :

(i) A single bank may not have capacity to advance large loan to a single borrower.

(ii) The risk of non-performing asset can be shared by number of banks.

(iii) Large amount of advances may involve high risk.

(iv) Large amount of loan will help industrial development.

20. Main features are :

(i) It is an alternative to cash

(ii) The cardholder enjoys the facility of a credit limit set on his card.

(iii) Helps to make payment in any currency of choice.

(iv) Issuing authorities keep a complete record of all transactions made by cardholder.

(v) Bonus points on financial value of transaction.

21. Disadvantages are :

(i) All shop do not accept credit card

(ii) It increases spending habit of customer and the card holder may end up in big debt.

(iii) Loss of card may invite fraud

(iv) Discount and rebates are rarely obtained when the purchase are made through credit card

22. It allows customers to purchase goods and services from the available fund in the customer's account. It facilitates the cash deposit, funds transfer, regular bill payment. It also helps in balance enquiry and getting mini-statement of account. Loan account enquiry and booking of railway and plain ticket can be made.

23. Services are

(i) ATM facilities

(ii) Credit Card facilities

(iii) ATM-cum-debit card

(iv) Electronic Fund Transfer System

(v) Mobile banking

(vi) Internet banking

(vii) Telephone banking.

Here the customers do not have to visit the bank's premises as in E-banking the services are delivered by way of computer controlled system.

24. Main disadvantage is the lack of personal touch as the customer does not go to bank for transaction. In case of transactional banking system, the banking staff assist the customers in case of difficulties. But here the same is lacking. Again the customer is advised to follow the issued guideline.

25. Bank is an integral part of the society as it operates within the society. It depends on customers for business who belong to society. Therefore, it has to abide by the principles, norms and values of the society. A bank has certain responsibility towards customers, employees, Government and Public.

UNIT - II

GROUP - C : LONG TYPE QUESTIONS

1. What do you mean by "Central Bank" ? Describe briefly the function of the Central Bank ?
2. Explain the concept of 'Monopoly of Note Issue' as a function of Central Bank.
3. How does the Central Bank acts as a controller of credit and money supply ? Explain.
4. Discuss the objectives and different methods of Credit Control.
5. How Central Bank acts as Banker, Agent and Adviser to the Government ?
6. How the central bank acts as Bankers' Bank ?
7. Discuss the assumption of effectiveness of bank rate policy and also mention the limitation of bank rate policy of credit control.
8. Mention the mechanism and effect of open market operation.
9. Discuss the mechanism and limitation of variable Cash Reserve Ratio.
10. What are direct actions used by Central Bank or Commercial Bank to Control Credit.
11. What do you mean by innovative Banking ? Discuss some of innovations in banking sector are :
12. What do you mean by Merchant Banking ? Discuss the important functions of Merchant Banking ?
13. Discuss the development of Merchant Banking in India.
14. Discuss main features of ATM-Cum-Debit Card. Mention the benefit of card.
15. Discuss the social responsibility of banks.

UNIT - II

GROUP - C : ANSWER

1. The Central Bank may be defined as the apex banking and monetary institution whose main function is to control, regulate and stabilise the banking and monetary system of the country in the national interest.

Functions :-

(A) Traditional Functions :

(i) Monopoly of note-issue

(ii) Banker, Agent and Advisor to the Government

(iii) Banker's Bank

(iv) Lender of last resort

(v) Clearing Agent

(vi) Control of Credit - Measures of credit control

(a) Bank rate

(b) Open market operation

(c) Cash Reserve Ratio (CRR) and

(d) Selective Credit Control

(vii) Custodian of National Reserve

(viii) Maintenance of exchange Rate

(B) Development Functions :

(i) Developing Specialised Financial Institution like IDBI, NABARD

(ii) Influencing money market and capital market

(iii) Collecting and disseminating statistical data

2. Central Bank in every country has been given the sole right of issuing currency notes in order to secure control over volume of currency and credit. These currency notes are circulated through the country as legal tender money. Legal tender means currency that may be lawfully tendered in all types of payment. Central Bank has gold and foreign securities against the notes issued it as per statutory rules.

Bank notes in India are currency being issued in the denomination of Rs.10, Rs.20, Rs.50, Rs.100, Rs.200, Rs.500 and Rs.2,000. These notes are called bank notes as they are issued by the Reserve Bank of India. The printing of notes in the denomination of Rs.1, Rs.2, Rs.5 have been discontinued as these denomination have been coinised. However, such bank notes issued earlier can still found in circulation and these bank notes continue to be legal tender.

3. Central Bank controls credit and money supply through its monetary policy. The basic objective of credit control function of central bank is to ensure the price stability along with full employment. It controls credit and money supply by adopting different measures of credit control, such as Bank rate, open market operation, Cash Reserve Ratio and selective credit control.

4. Central bank controls credit with a view to achieve the following objectives

(i) To maintain stability of internal prices

(ii) To eliminate fluctuations in production and employment

(iii) To achieve stability in foreign exchange rate

(iv) To safeguard country's gold and foreign exchange reserves.

(v) To accelerate economic growth of country

Methods :

(A) Quantitative methods of credit control

(B) Qualitative methods of credit control of selective credit control

(A) Quantitative methods of credit control

Objective is to regulate the volume of Bank advances. This can be exercised through the use of any one or all of the following method.

(i) Bank rate policy

(ii) Open market operation

(iii) Variation of Cash Reserve Ratio

(B) Qualitative Methods of Credit Control or Selective Credit Control

(i) Fixation of margin requirements

(ii) Rationing of credit

Two methods

(a) Variable Portfolio Ceiling

(b) Variable Capital Assets Ratio

(iii) Regulation of Consumer Credit

(iv) Control through Directive

(v) Moral Suation

(vi) Publicity

(vii) Direct action

5. Banker to the Government -

As a banker to the Government it performs the following functions :

(i) It maintains the accounts of the Central as well as State Government

(ii) It accepts deposits from the Government

(iii) It provides short-term loans (ways and means advance to the Government or request)

(iv) It collects cheques and drafts deposited in Government Account.

(v) It provides Foreign Exchange to the Government to pay external debt, for purchase of foreign goods and for making other payment.

(C) Agent to the Government -

(i) It receives taxes and other payments from the public on behalf of the Government.

(ii) It raises loan from the Public and Manages the Public Debt of the Government.

(iii) It represents the Government in the international financial institution and conferences.

(D) Adviser to the Government - The Central Bank advises to Government in respect of the following :

(i) The timing of Government Loans

(ii) On Foreign exchange policy

(iii) Devaluation of currency

(iv) On budgetary policy

(v) On current economic problems

6. The Central Bank is the friend, philosopher and guide of the commercial banks. A central bank acts as banker's bank in different capacities as :

   (i) Custodian of cash reserves - As per law all the commercial banks are required to keep a certain percentage of their deposits with the Central Bank. In India, RBI is empowered to vary these reserve ratio in order to exercise control over money supply.

   (ii) Lender of Last resort - When the commercial banks are not able to meet their financial requirements from any other sources, they can approach the central bank for credit facilities. The central bank provides them financial accommodation against eligible securities. In other words, the central bank allows them credit by rediscounting their bills of exchange and eligible securities.

   (iii) Acts as clearing agent - The Central Bank acts as the clearing house for commercial banks. The central bank hold the cash reserves of all commercial banks. So, the claims and counter claims of commercial banks against one another is settled easily with minimum cash transfer.

7. Assumption : The success of effectiveness of the bank rate policy depends on following conditions.

   (i) The commercial banks must depend on the central bank for additional cash.

   (ii) There must exist a close nexus between bank rate and market rate.

   (iii) Borrowing and investment depend on the prevailing rate of interest.

   (iv) Commercial banks should possess sufficient quantity of eligible securities.

   (v) The economic structure should be elastic.

   (vi) There is no restriction on the international flow of capital.

Limitation -

   (i) Market rate of interest does not change with bank rate.

   (ii) The prices and costs may not also change as a result of charges in the rate of interests.

   (iii) The bank rate cannot be the sole regulator of the economic system. The effectiveness of changes in the interest rates depends upon the elasticity of demand for capital goods.

   (iv) The effect of rise in the bank rate in controlling credit for industrial and commercial purpose is limited.

   (v) During the situation of falling prices, a fall in the interest rate can hardly stimulating economic activities.

   (vi) The change in the methods of financing by the business reduces the importance of bank rate policy.

   (vii) When the bank rate is increased, the money from foreign countries may flow into the country making credit control difficult.

   (viii) The bank rate policy does not discriminate the activities into productive and unproductive.

8. Mechanism - The purchase or sale of Government Securities and other eligible securities directly affects the cash reserves of the commercial banks which in turn affects their ability to create credit. Thus it brings an immediate change in the total volume of credit.

   Effects - Various effects of open market operation are :

(i) It directly affect the cash reserves of commercial bank.

(ii) Open market operation affects the price as well as yield of the securities.

(iii) Purchase of securities by the central bank may be interpreted as an expansionary monetary policy while sale of securities may be seen as contraction of credit.

(iv) It affects the total volume of credit, hence an effective tool to control inflation and deflation.

(v) Selling of securities may be used to correct the unfavourable balance of payment.

9. Mechanism : Commercial banks are required to keep a minimum percentage of their deposit in the form of cash reserve with the central bank. The central bank is empowered to vary such cash reserve ratio. The central bank expands or contracts credit in the economy by charging the cash reserve.

Limitation :

(i) This method proves to be ineffective where commercial banks keep large cash reserves with them.

(ii) If the commercial banks are in possession of large foreign funds, this method fails to be effective.

(iii) The effectiveness of this method depends on the demand of credit by borrowers.

(iv) This method may not work if there is marginal change in the cash reserve ratio.

(v) This method is discriminatory in nature as it affects the smaller commercial banks.

(vi) Frequent charges in the cash reserve ratio creates uncertaining in the minds of commercial bank.

(vii) May impose financial burden on commercial bank.

(viii) This method may create a depressing effect on the security market.

10. The method of direct action states that the central bank can use coercive measures against the erring commercial banks who do not obey the instruction or directives of central bank. The coercive action may be :

(i) Refusing discounting facilities

(ii) Denying additional financial accommodation if existing borrowing of a commercial exceeds its capital and reserve.

(iii) Charging of personal rate of interest

It is worthwhile to remember that this method should be used on the last resort, when all other methods fail to yield the desired result.

11. The term innovation means to make something new or to enter to unexplored area or field. Innovation helps an organisation to gain an edge over others and to grow and prosper faster keeping those things in mind Banks have not confined to their traditional activities like accepting deposits and advancing loans, they explore with innovative spirit and creative mind new areas, new products and services to provide better and wider varieties of services to their consumers without diluting their role as a significant player in contributing for the development of the country. Innovative banking refers to a type and trend of banking where always the thrust is given an exploring new products and services and methods of operations to become customer - friendly and at the same time developing good banking relationship with all the stakeholders.

Some of the innovators in Banking sector are :

(i) Merchant Banking

(ii) Consortium approach o/f financing

(iii) Credit Card

(iv) ATM-Cum-Debit Card

(v) E-Banking

(vi) Online and internet banking services

(vii) Transfer of funds through RTGS and NEFT facilities

12. Merchant Banking means banking along with or combining with different non-banking nature of services in the nature of assisting, advising and counselling industrial and business houses in their promotional, fun raising and other related activities. Such other services may include securities management, portfolio management, underwriting and insurance, financial advice, project counselling etc. In other words, merchant banking is a combination of banking with business and security related consultancy services.

Functions of Merchant Banking

(i) Raising Finance for Client

(ii) Managing Public issue of companies

(iii) Broker in stock exchange

(iv) Promotional activities

(v) Advice on expansion and Modernisation

(vi) Disseminating information to Small Companies and Entrepreneur

(vii) Services to Public Sector Units

(viii) Portfolio Management

(ix) Corporate re-structuring

(x) Leasing Services

(xi) Management of interest and dividend

(xii) Revival of sick industrial units

(xiii) Other specialised services like tax matters, recruitment of executives and cost and management of unit.

13. There was no Merchant Banking in the Indian Banking System till early 1960. Merchant banking Services were started only in 1967 by National Grindlay Bank in India. After that some other foreign bank like 'Citi Bank' and 'Chartered Bank' started their merchant banking in India in 1970. The SBI was fist Indian Commercial Bank to set up a separate merchant banking division in 1972. In 1973 ICICI set up it's merchant banking division. In mid 1970, there was boom in merchant banking in India. The large number of other Commercial Banks like Canara Bank, Central Bank of India, Bank of Baroda, Bank of India, Syndicate Bank, PNB, U. W. Bank. After that number of development banks and financial institution such as IFCI and IDBI have also entered this field.

(i) Foreign Bank - National Grindlay Bank, Citi Bnk, Chartered Bank and Hong Kong Bank.

(ii) Indian Banks

(iii) Private Merchant Banker

Merchant Banking Consultancy

J. M. Financial and Investment Service

Enam Financial Consultant

Kotak Mohindra

Ceat Financial Services

(iv) Financial institution - ICICI, IDBI

14. Features are

(i) Quick Cash Withdrawal

(ii) Balance Enquiry and transaction details :

Account balance of the customer can be checked at the ATM and also there is a facility to get a mini statement of your account showing the details of recent transactions carried out in the bank account.

(iii) Purchase of goods and services

(iv) Deposit of cash or cheques - There is no need to go to the branch of the bank to deposit cash or cheque.

(v) Request for new cheque book

(vi) Transfer of funds

(vii) Payment of utility bills - Utility bills like electricity bills, telephone bills

(viii) Make other payment - Payment for taxes, payment for mobile phone recharge etc.

Benefits -

(i) Save time instead of going to branch.

(ii) Convenient - It is 24 x 7, 365 days a year banking facilities.

(iii) Withdrawal of cash overseas

(iv) Security Feature - Use of ATM is restricted to the person who possesses the card and known.

15. Moral obligation of banks towards the Society. Corporate Social Responsibility (CSR) is a concept whereby the companies decide to contribute for a better society and clerner environment.

Some of the activities of banks which contribute towards the development of society being a part of social responsibilities are :

(i) Rural Expansion - Expansion of branches in rural area ensures the access of financial services by the people of weaker section of the society and low income group at affordable cost.

(ii) Priority Sector Lending - Agriculture, Cottage, Artisan, Food and Agro-based Processing Industries, Education, Housing.

(iii) Environment Protection - Promoting and Financing energy saving and solar projects, tree plantation drives, wild life protection.

(iv) Education - Support to low income family students, Education Loan, Education Scholarship.

(v) Community Welfare - Donation to Orphanage, Health Awareness, Donation for Disaster, Organising Blood Camps.

(vi) Women Empowerment - Free education for poor gires, concession to gires' student.

(vii) Farmer Welfare - Agriculture Debit Waiver, Establishing Farmer's Training Centre.

UNIT-III

KEY CONCEPTS

INTRODUCTION TO INSURANCE

RISK : Its classification and how to deal with it.

INSURANCE : Meaning, Definition and Mechanism of Insurance, Functions of Insurace, Basic Concept, Double Insurance, Re-insurance, Co-insurance, Insurance Market, Insurance Contract, Contingent Contract, Wagering Contact, Fundamental Principles of Insurance Contact, Insurance Act, 1938 and Role of IRDA (Insurance Regulatory and Development Authority).

Risk : Risk is a condition in which there is a possibility of an adverse deviation from a desired outcome that is expected or hoped for.

- **Classification of Risk :**

(i) Financial and Non-Financial Risk - Loss measured in terms of money are called Financial and risk involving loss of property come under financial. Risks which do not lead to monetary loss and are either of psychological or abstract in nature are called non financial risk.

(ii) Fundamental and Particular Risks - Fundamental risks called as group risks which affect the whole population or economy. Particular risk called as individual risk confined to individual entities or small groups.

(iii) Pure and Speculative risk - Pure risks refer to a situation where there is only chance of loss but no chance of gain.

Speculative risks are or other hand exist when there is uncertainty about an event that would produce either profit or loss.

(iv) Static and dynamic Risks - Static risks involve those losses which arise from destruction of assets due to natural or unnatural causes or due to act of others like dishonesty, negligence, failure etc.

Dynamic risks are the outcome of changes in macro economic variable like inflation, income, output, demand, technology etc. and are very difficult to predict.

(v) Insurable and Un-insurable risk - Insurable risks are those risks which can be insured.

Un-insurable risk cannot be insured / speculative risk come under that.

Risk - Situation where there is uncertainty and possibility of loss.

Peril - Cause of loss. Exp. - Fire, Flood, Theft.

Hazard - Condition that may create or increase the chance of loss arising out of the Peril.

(a) Physical Hazard - Out of Physical property / condition of material or goods.

(b) Intangible Hazard - Intangible hazards are abstract / Psychological in nature.

Hazards can be classified as :

Moral Hazard - Loss arising from some malafied intention - Deceive, Defraud or Cheat. Out of negligence or indifferent attitude of individual concerned.

Methods of Handling of Risk - Risk cannot be totally eliminated but only can be managed.

4 methods are :

(i) Avoidance of risk

(ii) Retention of risk

(iii) Reduction or controlling of risk

(iv) Transfer of Risk - The risk is transferred from the insured to the insurer by entering into a contract.

- **Definition of Insurance -**

Insurance is a contract by which one party, in consideration of a price paid adequate to the risk, becomes security to the other that he shall not suffer loss, damage or prejudice by the happening of the perils specified to certain things which may be exposed to them.

- **Essential Feature of Insurance -**

Insurance in a contract where an insurance company agrees to compensate the loss in consideration of certain fees called premium.

(a) Co-operative device - Spread the loss risk of loss among large number of people.

(b) Based on a contract - Between two parties insured who is exposed to risk of unexpected loss insurer who undertakes to make good the loss.

(c) Payment of Premium - Insured Pays a certain sum of money which is called premium to the insurer in consideration of the promise.

(d) Subject matter of insurance and insurable interest.

(e) Payment on happening of contingency.

(f) Insurable risk covered.

- **Mechanism of Insurance -**

Insurance is a Co-operative device and based on co-operative philosophy "All for one and one for all". It is voluntary association of people who are exposed to same winds risk and agree among themselves that loss caused by the risk to any member or members of the association be shared by all the members as to minimise its effect or burden on the unfortunate member / members.

The actual suffer is directly benefited and all other benefit from the feeling of safety and security.

- **Functions of Insurance -**

(i) Primary Functions

(a) Spreads Risk

(b) Provides Protection

(c) Provides Certainty

(ii) Secondary Functions

(a) Prevention of Loss

(b) Provides Capital

- **Basic Concept - Double Insurance, Re-insurance, Co-insurance.**

  Double Insurance - It means insuring the same subject matter for the same period, for more than one with the same insurer or their insurers.

  Re-insurance - It means insurance against insurance or insuring something which is already insured.

  Co-insurance - Insurance cover is provided by a consortium of insurer.

- **Insurance Marked**

  By insurance market we mean it is the sum total of actions and interaction among all buyers, sellers and intermediaries revolving round buying and selling of 'insurance'.

  There are 4 parties involved in buying and selling of 'insurance'.

(a) Insurance Companies - There are about 52 insurance companies operating in insurance market as sellers of different types of insurance products in India.

(b) Buyers of Insurance - Comprises of individuals, Societies, Clubs, Government, Public and Private bodies.

(c) The Intermediaries - Approved insurance agents, licensed corporate agents, bookers, surveyors and third party administrator serving health insurance claims.

(d) IRDA - Apex national controlling and regulating authority of insurance market and business in India (IRDA - Insurance Regulatory and Development Authority).

- **Insurance Contract -**

  Contracts between two parties namely the insurer and insured. Insurance contract being basically like all other contract, must fulfil all the essential elements of valid contract. Those are :

(i) There must be valid offer and acceptance.

(ii) There must be an intention to crate legal relationship.

(iii) There must be lawful consideration.

(iv) The parties must be competent to contract.

(v) There must be free consent.

(vi) The objects of the contract must be lawful.

(vii) There must be certainty or possibility of performance.

(viii) Legal formalities like writing, registration, attestation, stamp duty etc. must be observed.

- **Contingent Contract -** U/S (Under Section) 31 of Indian Contract Act contingent contract is a contract to do or not to do something depending upon happening or not happening of an uncertain event. All insurance contracts come under contingent contract.

- **Wagering Contract -** U/S 30 of Indian Contract Act Wagering Contract is defined as "an agreement between two parties by which one promises to pay money or money's worth on the happening of some uncertain event in consideration of other's party's promise to pay if the event does not happen."

- **Fundamental Principles of Insurance Contract**

(a) Principles of utmost good faith or uberrimae fide - Parties to insurance contract must maintain mutual trust and confidence. They are obliged under the law to disclose all material facts.

(b) Principle of Indemnity - All contract of insurance except life, personal, accident and sickness insurance are considered as contract of indemnity. This principle basically suggests that the insured should not be allowed to make a gain by getting more compensation than the actual loss suffered by him.

(c) Principles of insurable interest - Insured must have insurable interest in the subject matter of insurance.

(d) Principles of mitigation of loss - Insured must take all necessary steps to mitigate or minimise the loss.

(e) Principle or Doctrine of Subrogation - According to this principle the insurer after indemnifying the losses of the insured automatically becomes entitled to all the rights and claims of the insured as regard the subject matter of insurance. This principle is corollary to principle of indemnity.

(f) Principles of attachment of risk - Contract of insurance is only enforceable if the risk has been attached.

(g) Principle of Causa Proxima or Proximate cause - Efficient cause which brings about a loss with no other intervening cause or causes breaking the chain of events. The efficient cause must be proximate cause. Proximate does necessarily mean nearest in time but it is the direct, dominant, operative and efficient cause.

(h) Principles of Contribution - If an insured buys more than one policy on the subject matter from two or more insurers covering the same risk, he can not recover the same loss from all the insurers so that the total compensation received is more than the actual loss.

- **Insurance Act and Role of IRDA (Insurance Regulatory and Development Authority)**

  Insurance Act, 1938 - U/S 2(C) of the Act prohibits any agency to carry an insurance business unless it is public company, Registered Society, Body Corporate registered under the law in any country outside India not being in the nature of private company.

- **Licensing Condition - Licensing Process.**

  Capital Requirement - Minimum paid up equity capital required to carry on life insurance business in Rs.100 crore and for re-insurance it is 200 crore. The capital contributed must be only in the form of equity share, issue of preference share is prohibited.

  IRDA - The aim of the authority is "to protect the interest of holders of insurance policies, to regulate, promote and ensure orderly growth of insurance industry and for matters connected therewith or incident threto".

UNIT - III

GROUP - A : OBJECTIVE TYPE QUESTIONS

1. *From the following alternatives given below in each bit choose the correct answer.*

1. Insurance is a technique used to
   (a) Eliminate risk (b) Manage risk
   (c) Defer risk (d) Retain risk
2. An event that causes a personal or property loss is a
   (a) Peril (b) Hazard
   (c) Exposure (d) Risk
3. Risk arising out of natural qualities or physical feature of the subject matter of insurance is
   (a) Moral Hazard
   (b) Physical Hazard
   (c) Peril
   (d) Co-insurable risk
4. Insurance aims at mitigating
   (a) All losses
   (b) Financial losses only
   (c) Non financial losses
   (d) Emotional losses
5. The person who purchases insurance policy is called
   (a) Insurer (b) Re-insurer
   (c) Insured (d) Assignor
6. Consideration paid by the insured to the insurance company is known as
   (a) Insured sum (b) Premium
   (c) Compensation (d) Honourarium
7. Financial loss arising out of misconduct or dishonesty of an employee comes under
   (a) Property insurance
   (b) Liability insurance
   (c) Fidelity insurance
   (d) Crop insurance
8. Purchasing more than one policy or the same subject matter for the same period is called.
   (a) Co-insurance
   (b) Double insurance
   (c) Re-insurance
   (d) Multiple insurance
9. Re-insurance is a mechanism used to transfer risk by :
   (a) One insurer to other insurer
   (b) Insured to other insured
   (c) Insured to other insurer
   (d) Insured to insured
10. Loss caused due to injury to other person or property is termed as :
    (a) Personal risk (b) Property risk
    (c) Liability risks (d) None of the above
11. The first step in the risk management process is
    (a) Assessment of risk
    (b) Identification of risk
    (c) Treatment of risk
    (d) Designing a plan
12. The best method of dealing with risk is
    (a) Avoidance of risk
    (b) Assumption of risk
    (c) Insurance of risk
    (d) All of the above
13. Oldest form of insurance is
    (a) Life insurance (b) Fire insurance
    (c) Marine insurance (d) Motor insurance

14. Insurance channelizes the savings into
    (a) Productive investment
    (b) Unproductive investment
    (c) Both productive and unproductive investment
    (d) Neither productive nor unproductive investment

15. When the insurance company provides insurers the risk with some other insurance company, it is called
    (a) Life insurance (b) Marine insurance
    (c) Double insurance (d) Re-insurance

16. A type of insurance referred as a co-sharing agreement made between the insured and insurer under a health insurance policy is known as
    (a) Fire insurance (b) Re-insurance
    (c) Double insurance (d) Co-insurance

17. The word refers to a bet which represents something to be lost or won on the result of a doubtful issue.
    (a) Wager (b) Insurance
    (c) Assurance (d) Double insurance

18. Insurable interest is
    (a) Financial interest
    (b) Non Financial interest
    (c) Simple interest
    (d) Compound interest

19. Wagering contracts are :
    (a) Void (b) Voidable
    (c) Valid (d) None of the above

20. In which insurance, insurable interest should be present both at the time of taking a policy and also at the time of loss.
    (a) Life insurance (b) Fire insurance
    (c) Marine insurance (d) None of the above

21. The principle of indemnity does not apply to :
    (a) Life insurance (b) Fire insurance
    (c) Marine insurance (d) None of the above

22. The amount of compensation, as per the principles of indemnity is the
    (a) Actual loss
    (b) Assured sum
    (c) Lower of (a) and (b)
    (d) None of the above

23. Which of the following is a contingent contract ?
    (a) Life insurance (b) Fire insurance
    (c) Marine insurance (d) Both (b) and (c)

24. Insurance Act was passed in
    (a) 1956 (b) 1972
    (c) 1938 (d) None of the above

25. The Marine Insurance Act was passed in the year.
    (a) 1956 (b) 1963
    (c) 1972 (d) None of the above

26. Insurance Regulatory and Development Authority (IRDA) was passed in the year
    (a) 1981 (b) 1991
    (c) 1999 (d) 2001

27. LIC was nationalised in :
    (a) 1956 (b) 1973
    (c) 1999 (d) 2001

28. GIC (General Insurance Corporation) was nationalised in
    (a) 1956 (b) 1973
    (c) 1999 (d) 2001

29. Export Credit Guarantee Corporation (ECGC) of India is specialised insurer in public sector for
    (a) Crop insurance
    (b) Credit insurance
    (c) Health insurance
    (d) Personal Accident Insurance

30. The doctrine of subrogation is a corollary to the principle of
    (a) Insurable interest (b) Indemnity
    (c) Utmost good faith (d) Contributor

31. Insurable interest in Life Insurance exist when
(a) A policy is purchased
(b) The loss occur
(c) Policy is effected as well as when the loss occur
(d) None of the above

32. Which is not the fundamental principles of insurance
(a) Utmost good faith
(b) Indemnity
(c) Capacity of parties
(d) Proximate cause

33. Parties competent to make contract of insurance includes
(a) Who is of the age of majority
(b) Who is of sound mind
(c) Who is not disqualified from entering into contract
(d) All of the above

34. U/S 14 of Indian Contract Act, the consent for insurance contract is free when it is not caused by :
(a) Coercion (b) Undue influence
(c) Fraud (d) All of the above

35. Methods of indemnity are
(a) Cash payment (b) Repairs
(c) Replacement (d) All of above

36. Pre-requisites of principle of contribution do not include
(a) Common subject matter of insurance to all insurers
(b) Common risk to all policies
(c) Common insurable interest under all policy
(d) Not legally enforceable

37. The Insurance Act deals with
(a) Registration of insurers
(b) Investment of insurance funds
(c) Licensing of agents
(d) All of the above

38. The only company dealing with re-insurance business in India is
(a) LIC (b) SBI Life
(c) ECGC (d) GIC

39. Which of the following is not a primary function of insurance
(a) Encourages Savings
(b) Provides Security
(c) Ensures Certainty
(d) Assess risk

40. Which of the following is not a subsidiary function of insurance.
(a) Builds confidence
(b) Provides Loan Facility
(c) Encourages Saving
(d) Provides Security

41. Pure risk can be :
(a) Personal risk (b) Property risk
(c) Liability risk (d) All the above

42. Loss caused due to injury to other person or property is termed as
(a) Personal risk (b) Property risk
(c) Liability risk (d) None of the above

43. Treatment of risk may be :
(a) Avoidance of risk
(b) Assumption of risk
(c) Insurance of risk
(d) All the above

44. The best method of dealing with risk is
(a) Avoidance of risk
(b) Insurance of risk
(c) Assumption of risk
(d) None of the above

45. E.S.I. was formed in the year.
(a) 1948 (b) 1951
(c) 1971 (d) 1935

2. Do as Directed Questions

2 (a) Answer the following questions in one sentence each.

1. What do you mean by risk?
2. What is pure risks ?
3. What is speculative risks ?
4. What is fundamental risks ?
5. What is static risks ?
6. What is Dynamic risk ?
7. What is Liability Insurance ?
8. What does credit insurance cover ?
9. What is Bond Insurance ?
10. Why re-insurance is called as insurance of insurance ?
11. What is proportional basis of re-insurance ?
12. What is Excess loss basis of re-insurance ?
13. What is consequency of principles of subrogation ?
14. What do you mean by principle of mitigation of loss ?
15. What are the objectives of forming IRDA ?

2 (b) Express the following in one word / term each.

1. A risk where there is possibility of both loss and gain -
2. The cause of loss or the contingency that may cause loss.
3. A condition that may create, decrease or increase the chance of loss from a peril.
4. An objective feature that increase the chance of loss arising out of a peril.
5. Risks arising out of charges in macro economic variables.
6. Property insurance that covers the losses due to fire.
7. Insurance policy that protects the purchaser from fines imposed by law suits and similar claims.
8. Policy covering risk arising out of fraudulent misconduct or dishonesty of an employee during the course of employment.
9. The consideration paid by the insured to the insurer for purchasing insurance cover.
10. Insurance of insurance is known as
11. When a property is insured with more than one insurer for the same period it is a case of.
12. When the loss is shared between the insurer and insured in an agreed percentage it is called.
13. The interest of insured in the subject matter of insurance.
14. The principle of insurance that aims at making good the loos alone is.
15. The science that deals with construction of mortality table and calculation of premium.

2 (c) Correct the underlined portion of the following sentences.

1. Insurance is a technique of peril management.
2. Pure risk refers to a situation where there is a chance of gain only.
3. Fundamental risk is also called as individual risk.
4. The insured promises to make good the loss in a contract of insurance.
5. Insurance is a contract between three parties.
6. Re-insurance is purchased to reduce the burden of the risk of the insured.
7. Double insurance is insurance of property with same or different insurer for different period of time.
8. Reinsurance allows a insurance company to transfer whole of the risk to a third party.
9. All insurance contracts are wagering agreement.
10. Wagering agreement are valid contracts.
11. GIC is a private sector undertaking.
12. ECGC deals with crop insurance business.
13. The IRDA consists of not more than 4 whole time members.
14. The main objectives of IRDA to promote and safeguard the interest and rights of Insurer.
15. The tenure of the IRDA chairperson is for 4 years.

2 (d) Fill in the blanks.

1. Hazard is a condition that may create or increase the chance of loss arising out of the ______.
2. Risk which can be insured are called ______ risk.
3. Risks those affect the whole population are called ______ risk.
4. Speculative risks are not ______.
5. Intangible Hazard are ______ in nature.
6. Workmen's compensation insurance is a ______ insurance.
7. Accident insurance comes under ______ insurance.
8. The money paid by the insured to the insurer is known as ______.
9. The creating office and Guaranteeing office must maintian utmost ______.
10. No re-insurance is allowed without ______ of risk.
11. Double insurance is an agreement between the property ower and ______ insurance companies.
12. Principle of indemnity is not applicable in case of ______ insurance.
13. Normally the risk runs from the time the ______ is accepted by insurance company.
14. The member of IRDA are appointed by ______.
15. General Insurance Business in India was nationalised in the year ______.

UNIT - III

GROUP - A : ANSWERS

1. From the following alternatives given below in each bit choose the correct answer.

1. (b) Manage risk
2. (a) Peril
3. (b) Physical Hazard
4. (b) Financial losses only
5. (c) Insured
6. (b) Premium
7. (c) Fidelity insurance
8. (b) Double insurance
9. (a) One insurer to other insurer
10. (c) Liability risks
11. (b) Identification of risk
12. (b) Assumption of risk
13. (c) Marine insurance
14. (a) Productive investment
15. (a) Life insurance
16. (d) Co-insurance
17. (a) Wager
18. (a) Financial interest
19. (a) Void
20. (b) Fire insurance
21. (a) Life insurance
22. (c) Lower of (a) and (b)
23. (d) Both (b) and (c)
24. (c) 1938
25. (b) 1963
26. (c) 1999
27. (a) 1956
28. (b) 1973
29. (b) Credit insurance
30. (b) Indemnity
31. (a) A policy is purchased
32. (c) Capacity of parties
33. (d) All of the above
34. (d) All of the above
35. (d) All of above
36. (d) Not legally enforceable
37. (d) All of the above
38. (d) GIC
39. (a) Encourages Savings
40. (d) Provides Security
41. (d) All the above
42. (c) Liability risk
43. (d) All the above
44. (b) Insurance of risk
45. (a) 1948

2. Do as Directed Questions

2 (a) Answer the following questions in one sentence each.

1. Risk is a condition in which there is a possibility of an adverse deviation from a desired outcome that is expected or hoped for.

2. Refer to a situation where there is only chance of loss but no chance of gain.

3. Speculative risks on the outer hard exist when there is uncertainty about an event that could produce either profit or loss.

4. Fundamental risks which are also called group risks affect the whole population or economy.

5. Static risks involve those losses which arise from destruction of asset due to natural/unnatural causes or due to act others like dishonesty, negligence failure etc.

6. Dynamic risks are the outcome of changes in macro-economic variable like inflation, income, output, demand, technology.

7. Liability Insurance protects the insured from the risk of liabilities imposed by law suits and other similar claim.

8. Credit insurance covers the risk relating to credit sales, hire purchases, overdraft.

9. This is a type of insurance where by an insurance company guarantees a scheduled payment of interest and principal as a bond or other security in the payment default by the issuer of the bond or security.

10. This is so as the risk is shared by original insurance company with other companies.

11. When reinsurance contract is made on proportional basis, all premium, losses and expenses are proportionately shared between insurer and reinsurer as per arranged.

12. Here the primary insurer keeps all loses to a predetermined retention amount and the reinsurer reimburses the insurer for any loss above the retention amount but it is limited to reinsurance limit.

13. According to this principle the insurer after indemnifying the losses of insured automatically becomes entitle to all rights and claims of insured as regards the subject matter of insurance.

14. This principle of insurance requires that the insured must take all necessary steps to mitigate or minimise the loss.

15. The aim of this authority is to protect the interest of holders of insurance policies, to regulate, promote and ensure orderly growth of insurance industry.

2 (b) Express the following in one word / term each.

1. Speculative
2. Peril
3. Hazard
4. Physical Hazard
5. Dynamic risk
6. Open peril
7. Liability Insurance
8. Fiedelity
9. Premium
10. Re-insurance
11. Double insurance
12. Co-insurance
13. Insurance interest
14. Principle of indemnity
15. Acturial

2 (c) Correct the underlined portion of the following sentences.

1. Risk
2. Loss
3. Group
4. Insurer
5. Two
6. Insurer
7. Same
8. Part
9. Contingent
10. Void
11. Public
12. Credit
13. 5
14. Insured
15. 5 years

2 (d) Fill in the blanks.

1. Perils
2. Insurable
3. Fundamental / Group
4. Insurable
5. Abstract / Psychological
6. Liability
7. Personal
8. Premium
9. Good faith
10. Retention
11. Multiple
12. Life Insurance
13. Premium
14. Central Government
15. 1973

UNIT - III

GROUP - B : SHORT TYPE QUESTIONS

3. Answer the following questions within 30 words each.

1. What do you mean by Insurance ?
2. What do you mean by risk ?
3. What do you mean by Non-financial risk ?
4. What is the nature of fundamental risk ?
5. What is the nature of particular risk ?
6. What is the nature of speculative risk ?
7. What do you mean by Moral Hazard ?
8. Give the example of Morale Hazard ?
9. Mention the methods of handling risk.
10. How risk is transferred ?
11. Why insurance is considered as co-operative device ?
12. How many parties are there in Insurance Contract ?
13. What is insurable risk ?
14. Which type of losses can not be measured in terms of money ?
15. What is the basis of calculation of chance of loss ?
16. What do you mean by loss of non-catastrophic nature ?
17. How risk is transferred ?
18. What is function based definition of insurance ?
19. What is contract based definition of insurance ?
20. What do you mean by premium ?
21. "All for one and one for all" Justify the statement in the light of insurance agreement.
22. Mention the mechanism of insurance.
23. What are different personal insurances ?
24. What do you mean by Health or Medical Insurance ?
25. How property insurance is covered ?
26. What does Marine Insurance cover ?
27. What does fire insurance cover ?
28. What are the objective of crop insurance ?
29. When Guarantee Insurance is applied ?
30. How property insurance provides protection against the loss ?
31. How insurance company helps to prevent the losses ?
32. Why re-insurance in made by insurer ?
33. Can insurance company transfers all the risks to other insurance company?
34. Why principle of indemnity cannot applied in Double Insurance of Life Insurance ?
35. What do you mean by co-insurance ?
36. Why principle of utmost good faith or Uberrimae Fidei is essential in contract of insurance ?
37. Why principle of indemnity is not applied to Life Insurance ?

38. When insurable interest present in Fire Insurance ?

39. Why insurable interest is necessary in Insurance Contract ?

40. Why proximate cause is necessary in case of insurance contract ?

41. What is principle of contribution ?

42. What are the objectives of Insurance Regulatory and Development Authority (IRDA) ?

43. Who are the users of Insurance Service ?

44. What are the funds available to Finance IRDA?

4. *Answer the following questions within 50 words each.*

1. Mention the characteristics of risk.

2. Distinguish between pure risks and speculative risks.

3. How risks distinguished from Peril and Hazard ?

4. How the risk can be managed ?

5. Mention the mechanism of insurance.

6. What is Liability Insurance ?

7. What are different forms of insurance under guarantee insurance ?

8. How far Insurance Company provides employment and promoters Savings habits ?

9. How far Insurance provides security or protection to the insured ?

10. How far Insurance spreads the risk ?

11. How Insurance Provides Loan facility by pledging the insurance policy ?

12. Why over-insurance should be avoided by insured ?

13. Who are the buyers of Insurance Policy ?

14. Who are sellers of insurance ?

15. What do you mean by Insurance contract ?

16. What are material facts in Insurance Contract ?

17. What do you mean by principles of indemnity in Insurance Contract ?

18. What do you mean by principle of subrogation ?

19. What do you mean by co-insurance ?

20. What is principle of contribution ?

21. What is the scope of Insurance Act, 1938 ?

22. What is Composition of IRD (Insurance Regulatory and Development Authority) 1999 ?

23. Why Insurance Contracts are considered as contingent contract ?

24. What are the requirements as to capital to carry on insurance business as per IRDA, 1999.

25. What is impact of IRDA over Development of Insurance product ?

UNIT - III

GROUP - B : ANSWERS

3. Answer the following questions within 30 words each.

1. Insurance is considered as an instrument of risk management. It is a device for the transfer of risk of industrial entities to an insurer for a consideration.

2. It is the probability or enhance of loss that may occur on account of unfavourable out-come which arises on adverse deviation from a desired outcome that is expected.

3. The risks which do not lead to monetary loss. They are either of psychological or abstract in nature which cannot be measured in terms of money.

4. Those risks are called as group risk affecting the whole population or economy. Those are impersonal in origin and consequence Exp. Are risks such as unemployment, war, inflation etc.

5. Those risks are called as individual risks which are confined to individual entities are small groups. Theft, robbery, fire, road accident are risks that are particular in nature.

6. Speculative risk exists when there is uncertainty about an event that could produce either profit or loss. So this type of risk is not insurable.

7. It refers to increase in the possibility of loss arising from some malafied intention i.e. to deceive, defraud or cheat. It is the individual's mental attitude or dishonesty that leads to loss.

8. This does not arise out of malafied intention but out of negligence or indifferent concerned. Smoking inside a cooking gas factory is the best example.

9. Risks cannot be totally eliminated but only be managed. The methods of managing risks are avoidance of risk, Retention of risks, Reduction / Controlling of loss and transfer of risk.

10. Insurance is way in which risk is transferred from the insured to insurer by entering into a contract. Insurance is a popular and widely acclaimed risk management method.

11. Insurance is a co-operative device used to spread the risk of loss among a large number of people. All people insured are exposed to risk for which they take insurance.

12. Insurance contract involves two parties namely the insured and the insurer. Insured is exposed to the risk of unexpected loss and the insurer is to make good the loss.

13. Those risks which can be predictable, measurable in terms of money, ca be insured on the basis of degree of risk involved. Those risks can support, standard and substandard.

14. Losses of abstract nature like peace of mind, tension, emotional suffering etc. can not be measured in terms of money and cannot be compensated and not considered as insurable risks.

15. The possibility of happening of an event and probable extent of loss can be calculated using probability distribution based on past statistics.

16. Losses of non-catastrophic in nature are the situation where all individuals or units are exposed to risk and meet the loss at same time.

17. Risk may be transferred to another person or organisation either by contractual agreement like insurance or by forming Joint Stock Companies. In insurance risk is transferred from insured to insurer.

18. Insurance is a device for the transfer of risk of individual entities to an insurer, who agrees, for a consideration (called the premium) to assume to a specified extent losses suffered by the insured.

19. Insurance is a contract where are party promises in return for consideration to pay an agree amount to other to make of good for a loss.

20. The insured pays a certain sum of money called premium to insurer in consideration of the promise given to make good the loss arising out of the risk.

21. This co-operative philosophy on which insurance contract is based. In this case there is voluntary association of people who are exposed to same kind of risk and subsequently shared by all.

22. It is a simple arrangement that converts an individual loss into a group loss where the actual sufferer is directly benefitted and all others feel the safety and security.

23. Life insurance, Accident insurance, Health and Sickness insurance come under the group of personal insurances. In all those insurance the subject matter of insurance remains the person.

24. This type of insurance is against the risk of incurring medical expenses by individuals. In case the policy holder spends for certain diseases then that will be compensated.

25. This is covered in two main ways i..e open peril which covers all the cause of loss and named peril which covers those causes which are named 'mentioned in policy'.

26. It covers the loss or damage of ship cargo and freight due to marine peril like collision, capture, leakage, cyclone.

27. It provides protection against the loss or damage caused to property by fire during a specified period. The contract specifies the maximum agreed to by the parties.

28. Crop insurance aims at compensating loss due to destruction or damage of crop on account of rain, flood, cyclone, drought, pests and insects during a season.

29. Here the insurance company agrees to indemnified the insured against losses arising out of dishonesty, unfaithful performance or breach of contract by a third person having contractual relationship with insured.

30. Property insurance safeguards the property owner against fear of loss as well as actual loss that may arise out of some unforeseen event causing damage or loss to the property.

31. Insurance Companies while undertaking to make good the loss advise the insured to take all preventive measures like installation C. C. Cameras, fire fighting equipment installation etc.

32. This is made when an insurance company transfers a part of its insurance risk to other insurance company or companies to reduce its overall burden.

33. Original insure cannot transfer all the risk. Original insurer must retain a part of the risk and not allowed to transfer the risk entity.

34. Since Life Insurance is not a contract of indemnity so the same principle is not applicable in double insurance case. A person can purchase as many policies for realisation on maturity.

35. Co-insurance is a provision in an insurance policy that provides that the insurance company and the insured will apportion between them any loss.

36. Parties to the insurance contract must disclose all material facts. Those can be disclosed honestly, truthfully and completely so that there will be proper assessment of risk.

37. In case of Life Insurance principle of indemnity is not applied as it is not possible to measure the actual value of one's life in terms of money.

38. In fire insurance, insurable interest must be prepared at time of entering into the contract as well as at the time of claim.

39. Insurable interest is necessary in all form of insurance contract to provide guarantee policy holders who are likely to suffer financial loss in case the contingency arises.

40. When loss occurs due to a number of causes, determination of the proximate cause becomes important for settlement of claim. It is the direct, dominant, operative and efficient cause.

41. This doctrine ensures equitable distribution of losses among the insurers. Insured can be entitled to the actual loss only and receive it from one insurer or the insurers rateably.

42. It was established by Parliament of India Act on ordinance 2014. The purposes are to protect, promote and safeguard the interest and rights of policy holders and growth of Insurance Industry.

43. The general users assign due weightage to their own interests where as the industrial users assign an overriding priority to the interests of their organisation.

44. Funds include

    (i) Government grants, fees and charges

    (ii) Money received by IRDA from other sources specified by Central Government

    (iii) Premium income received from insurer.

4. *Answer the following questions within 50 words each.*

1. Risk arises out of uncertainty or unpredictability of an event. This outcome of an event may favourable or unfavourable. When the outcome is unfavourable, it leads to loss - Financial or Non-financial. For a business, prediction of the products, markets or demand is uncertain. When the demand decreases it leads to unfavourable and subsequently to loss.

2. Pure risk refers to a situation where there is only chance of loss but no chance of gain where as speculative risks there may be chance of gain. Pure risks are insurable where as speculative risks are not. Speculative risks may be advantageous but pure risks are damaging.

3. Risks refer to a situation where there is uncertainty and possibility of loss. Peril is the cause of loss. Hazard is a condition that may create chance of loss arising out of Peril Keeping fire cracker inside the house is hazard because it increases the chance of fire (Peril) and consequently the loss.

4. Risks cannot be eliminated but only be managed. There are 4 methods of treating the risks. Those are

(a) Avoidance of risk

(b) Retention of risk

(c) Reduction or controlling of risks by taking preventive measures.

(d) Transfer of risk - transferred to person or organisation like insurance company.

5. The mechanism helps spreading loss of a few over a large group. Insurance is a contract where there is voluntary association of people who are exposed to same kinds risk and agree among themselves that loss caused by the risk to any member or members of the association will be shared.

6. Liabilities insurance protects the insured from the risk of liabilities imposed by law suits and other similar claim. In some cases, liability insurance is a compulsory requirement. Third party insurance in accident insurance policy and workmen compensation in a factory, are examples.

7. Guarantee insurance contract are those where insurer agree to indemnify the insured against losses arising out of dishonesty, unfaithful performance and breach of contract by a third person having contractual relationship with insured. Fidelity credit and Bond insurance are the forms of Guarantee insurance.

8. Insurance companies provides employment for people to act as agents, advertisers and employees. Again the insurance companies promotes saving habit of people inducing them to buy insurance. For this they are compelled to make necessary savings and pay regular premium.

9. Insurance provides security or protection to the insured against the risk of loss to life and property. In the event of loss, the insurance company compensates the insured out of the premium collected from the policy holders. Thus, it creates a sense of security among the policy holder.

10. Insurance is a co-operative device. Loss of few are borne by all in insuring community. So in Insurance, Loss of one is spread over so many. Every insured pays premium and common pool is formed out of that loss to any one is compensated.

11. Loan can be borrowed from insurance company by pledging life insurance policy as collateral security. Money can be borrowed upto surrender value of policy. Return of loan on instalment is also allowed. If the loan is not paid, it can be recovered from maturity value.

12. This should be avoided by insured for two reasons. First, he has to pay more premium. Second, in the event of loss the insurance company will pay the lower of the assured value and actual loss. Here the amount of compensation cannot exceed the value of property.

13. The individuals, institutions or companies are the buyers or prospective insured. Individual are the persons, undertaking and organisation, government and importer and exporter. Those make the insurance an life on properties of their subject matter of insurance.

14. The insurers are the seller or insurance. They take the form of individual, partnership and joint stock companies. Other forms are co-operative societies, mutual associations or companies. The largest insurance organisation is Lioyd's association with the enactment of Leoyd's Act in England. The state also undertakes the insurance business.

15. A contract is an agreement between two parties which can be enforced by law. Like any other contract an insurance contract is government by Indian Contract Act, 1872. An insurance contract consists of

(i) Elements of general contract.

(ii) Elements of special contract relating to insurance.

16. Material facts are the facts that have a direct bearing on the degree of risk on the subject of insurance. In life insurance the material facts are age, health, income, occupation. In fire insurance the material facts are surrounding, material used for construction and in Marine Insurance the Cargo, Ship, Port etc.

17. Indemnity means "Compensation for loss." The principle states that in the event of loss the insurer will compensate the actual loss or insured amount whichever is lower. In other word, the insurer will put insured in the same position as he was before the happening of the loss.

18. The principle of subrogation states that all rights and remedies of the insured is transferred to insurer after indemnification. After the claim has been settled, the insurer steps into shoes of the insured to claim against third party who is responsible for the loss to the subject matter.

19. Co-insurance is spreading the risk among multiple parties. It is the clause used by insurance companies on policies covering property such as buildings, stocks or individual equipment. This clause makes sure policy holders insure their property to an appropriate value and that the insurance receive a fair premium.

20. Principle of contribution is the right of an insurer who has paid claim under a policy, to an insurer for the same loss, to contribute. This doctrine ensures an equitable distribution of losses between different insurances. This principle is applicable to all contract of indemnity except in the life insurance.

21. The insurance Act, 1938 was wide and more comprehensive piece of legislator in India covering both life and non-life branches of insurance. It also governs the provided companies, mutual funds and Co-operative Societies.

22. IRDA is an apex statutory body constituted by an Act of Indian Parliament in 1999. The IRDA is constituted by members

(a) Chairman

(b) Not more than 5 whole-time members

(c) Not more than 4 part-time members.

These persons are appointed by Central Government.

23. Insurance Contracts are considered as contingent contracts because they possess the following three essential characteristics of contingent contract

(a) The performance depends upon the happening or non-happening of some future event.

(b) The event is always uncertain

(c) The event must be collateral or incidental to the contract.

24. As per IRDA Act, 1999 for the registration of Insurance business, Insurer should have,

(a) a paid-up equity capital of Rupees one hundred cores in carrying on Life insurance or General insurance.

(b) a paid-up equity capital 200 crores to carry on exclusive the business of reinsurance.

25. IRDA has a brought a revolution in the product design system and the process of developing new insurance products. The development of ULIPs (Unit - Linked Insurance Plans) is a result of privatisation of the insurance sector initiated by IRDA.

UNIT - III

GROUP - C : LONG TYPE QUESTIONS

1. What do you mean by risk ? Explain different types of risk.
2. What is a hazard ? How it is different from Peril ? Explain different types of hazard.
3. What are different steps of Risk Management Process ?
4. Discuss the function of Insurance.
5. Discuss importance of insurance.
6. Who are the sellers in the Indian Insurance Market ?
7. Briefly explain the important principles of Insurance.
8. Discuss the benefits or functions of re-insurance.
9. Difference between Reinsurance and Double Insurance.
10. Difference between Reinsurance and Coinsurance.
11. Mention the essential of insurable Interest.
12. Discuss the essential feature of princile of subrogation.
13. Discuss the duties, powers and functios of the IRDA.
14. Briefly explain the provisions of Indian Insurance Act, 1938.

UNIT - III

GROUP - C : ANSWER

1. Risk is generally understood as a probability or chance of loss that may occur on account of unfavourable outcome/turn out of an event.

Types of risk :

(a) Financial and Non-financial Risks

(b) Fundamental and Particular Risks

(c) Pure and Speculative Risks

(d) Static and Dynamic Risks

(e) Insurable and Unisurable Risk

2. Hazard is a condition that may create or increase the chance of loss arising out of Peril. A Peril on the otherhand is the cause of loss.

Hazard can be -

(a) Physical Hazard

(b) Intangible Hazard - Can be classified as

 (i) Moral hazard due to malafide intention

 (ii) Morale hazard - Due to negligence or indifferent attitude of individual.

3. Risk Management is a scientific and structural approach to manage the uncertainties that create risks. It consists of :

(i) Identification of Risk - for the identification of risk the steps are

 (a) Go to source of problem

 (b) Identify the possible threat

 (c) Analyse the interacting forces

 (d) Search for alternative ways to achieve the objective

(ii) Assessment of Risk

Risk = Probability of Occurrence x impact of the event

R = P.I.

(iii) Treatment of risk in 5 ways

 (a) Avoidances of risk

 (b) Risk reduction or prevention

 (c) Assumption of risk

 (d) Risk transfer

 (e) Insurance of risk

(iv) Designing a Plan.

(v) Implement of Plan

4.(A) Primary Function of Insurance

 (a) Provides security

 (b) Ensures certainty

 (c) Assesses risk

 (d) Spreads risk

(B) Subsidiary functions of Insurance

 (a) Encourages saving

 (b) Invest for Social and Economic Development

 (c) Builds Confidence

 (d) Provides Financial Stability

 (e) Provides Loan Facility

 (f) Facilitates Foreign Trade

 (g) Generates Employment

5.(A) Importance of Insurance - To Individual - Protects, Safeguarding against loss, encourages savings, tax planning and above all relieves from the worries of future education, marriage etc. of children.

(B) To Society - accelerates the economic growth, generates employment.

(C) To Business and Industry, Reduces uncertainty, credit worthiness increased.

Seller in Insurance market.

6.(A) Life Insurers

(i) In Public Sector - LIC

(ii) In Private Sector - Bajaj Allianj, Birla Sun Life, HDFC Standard Life, Tata AIG, Bharat Axa, Max New York Life, ICICI Prudential.

(B) Non Life Insurers

(i) In Public Sector - The General Insurance Corporation (GIC) was formed in 1973 under the General Insurance Business (Nationalisation) Act, 1972. It has four subsidiaries.

(a) The New India Assurance Co. Ltd.

(b) National Insurance Co. Ltd.

(c) The Oriental Insurance Co. Ltd.

(d) United India Insurance Co. Ltd.

After from these Employees State Insurance Corporation (ESI) was established in 1948 to provide Social insurance benefit to workers and Employees. The deposit Insurance Corporation was set up in 1962 to provide security to the depositor of a bank. Export Credit and Guarantee Corporation was also incorporated in 1957 to insure export risks.

(iii) In Private Sector - Bajaj Allianze General Insurance, ICICI Lambard, Reliance General Insurance, Royal Sunderam Alliance Insurance Company.

7. An insurance contract consist :

(A) Elements of General Contract

(i) Offer and Acceptance

(ii) Lawful Consideration

(iii) Capacity of Parties

(iv) Free Conserved

(v) Legality of object

(B) Elements of Special Contract relating to insurance -

(i) Principles of utmost good faith

(ii) Insurable interest

(iii) Principle of indemnity

(iv) Principle of subrogation

(v) Principle of contribution

(vi) Principle of Causa Proxima

(vii) Mitigation of Loss

8. Benefits of re-insurance are :-

(i) Risk transfer- Re-insurance allows an insurance company to transfer a part of the risk to other insurance company and thus helping in limiting its liability.

(ii) Stabilisation of income. Reinsurance helps in smoothing the wide fluctuation in profit and loss margin which is inherent in insurance business.

(iii) Capacity increase - By reinsurance underwriting capacity of insurance company enhances.

(iv) Catastrophic Protection. Reinsurance provides the protection against catastrophic loss.

9. Difference between Reinsurance and Double Insurance

Reinsurance		Double Insurance	
i.	Transfer of risk by one insurer to another insurer.	i.	Insuring of the same risk and same subject matter with more than one insurer during the same period by the same owner.
ii.	Reinsurance is an insurance of insurance	ii.	Double insurance is multiple insurance of the same subject.
iii.	Agreement between insurance companies	iii.	Agreement between the insured and many insurance companies.
iv.	Original insured cannot claim any part of his loss from the re-insurer.	iv.	Insured can claim from all the co-insurer.
v.	Terminates once the original insurance lapses	v.	Does not happen even if one insurer has paid the claim he can ask other for contribution.
vi.	Purchased to lessen the burden of the risk of the insurer.	vi.	Purchased by insured when he doubts the financial soundness of the insurer.

10. Difference between Reinsurance and Coinsurance

Reinsurance		Coinsurance	
i.	Contract between insurance companies.	i.	Between the insured and more than one insurance companies.
ii.	Insured cannot claim any part of the loss from the reinsurer as there is no contract between them.	ii.	Insured can claim its loss from one or all coinsurer.
iii.	Objective is to transfer a part of risk as a precautionary measure.	iii.	To share business among coinsurrers.
iv.	Two contracts are involved in two stages.	iv.	Single contract between the co-insurer or a consortium of insurers of insurers and the insured.

Double insurance - When the same subject matter is insurred twice either with two or different insurer or with insurer under two policies.

Double insurance is beneficial only in case of Life Insurance and not useful in case of fire and marine insurance due to application of the principle of indemnity.

11. Insurable interest refers to the pecuriary or monetary interest present in a life or property where by the policy holder is benefitted by its existence and suffers financially in case of its non existence.

Essential of insurable interest -

(i) There must be a subject matter - life or property to be insured.

(ii) The insured must have financial involvement with the subject matter.

(iii) The insured must have legal relationship with the subject matter to be insured.

(iv) It must be capable of being measured.

(v) The policy holder must be economically benefited by the existence of subject matter and suffers economic loss out its destruction.

12. 'Sub' means under

'rogare' means to ask

So asking (for payment) under anothers' name is termed as subrogation.

Essential Features

(i) The insurer is given the right to sue the third party in the name of insured.

(ii) Limited upto the amount of compensation.

(iii) The assured, after being indemnified, will have to provide all necessary assistance to the insurer to fight against third party.

(iv) It is corollary to the principle indemnity.

(v) This principle is applicable to all contract of indemnity except life insurance.

(vi) Subrogation may be applied by the insurer even before making compensation except marine insurance. This is because any delay in action may affect the right of recovery adversely due to certain time limit prescribed by law.

13. Section 14 of IRDA Act lay the duties, powers and functions of the authority.

The most important duty of the IRDA is to regulate, promote and ensure orderly growth of insurance and reinsurance business.

Power and Functions

The power and functions of the authority can be stated as follows :

(i) Issue of certificate of registration, renewal, modification, withdrawal, suspension or cancellation of such registration of insurance company, insurance agents, brokers, surveyors etc.

(ii) Protection of interest of policy holders concerning settlement of claim, surrender value, assignment, nomination or any other terms and conditions of insurance contract.

(iii) Specifying requisite qualification, code of conduct and practical training for insurance brokers, agents, surveyor.

(iv) Promoting efficiency in conduct of insurance business.

(v) Promoting and regulating professional organisations connected with insurance and reinsurance business.

(vi) Specifying the form and manner in which books of accounts will be maintained.

(vii) Adjudication of disputes between insurer and intermediaries.

(viii) Specifying the percentage of life insurance and general business to be undertaken by the insurer in rural or social sectors.

(ix) Regulating investment of fund by insurance companies.

(x) Regulating maintenance of margin of solvency.

(xi) Specifying the percentage of premium income of insurer to finance scheme for promoting and regulating professional organisation.

(xii) Specifying to percentage of insurance business to be undertaken by the insurance companies in different social sector.

14. Important Provision of Insurance Act 1938 as under in a nut shell are -

(i) Prohibition on conduct of Insurance business - U/S 2(c) of the Act any agency to carry an insurance business unless it is

(a) A Public Company

(b) A Registered Society

(c) A body corporate registered under the law in any country outside India not being in the nature of Private Company.

(ii) Licensing condition. Mandatory that only an Indian Insurance Company can carry on an insurance business in India. Registered under Indian Companies Act, 1956, where aggregate foreign equity share holding does not exceed 26%.

Licensing Process -

1st Stage requisition for registration is made and if granted.

2nd stage an application for registration.

Documents are to be submitted.

Proof of paid up capital of Rs.100 crore.

Proof of deposit.

Marketing and distribution information.

Information of investment philosophy strategy and ground level arrangement.

Information regarding reinsurance approach and terms.

Information regarding expenditure.

(iii) Capital Requirement - paid up equity capital required to carry on life insurance business is 100 crores and for re-insurance it is 200 crores.

(iv) Accounts and returns.

Prescribed form

(a) Balance Sheet

(b) Profit and Loss A/c

(c) A revenue account for each class of insurance business

(v) Investment - only in scheme approved under provision of the act.

(vi) Power of investigation . Central Government order to Authority or any other person specialised in order to investigate.

(vii) Advance payment of premium. Received in advance.

(viii) Licensing of Surveyor or less Assessor. Before admitting any claim over 20,000/- a general insurance company must obtain report on the loss from assessor.

(ix) Penalties - prescribed on insurer for contravention of different provision.

(a) Failure to furnish document, statement and return.

(b) Failure to comply with investment norms.

(c) Failure to maintain solvency margins.

(d) Furnishing false document or false statement.

(e) Failure to carry out rural and social sector obligation.

(f) Failure to comply with direction of authority.

UNIT-IV

KEY CONCEPTS

LIFE INSURANCE AND OTHER INSURANCE

Life Insurance :

Element of Protection and Investment, Importance of Life Insurance, Procedure of effecting a Life Policy, Premium Computation including mortality table or various policy conditions.

Settlement of Claims

Types of Life Insurance Policies - on the basis of duration and number of life covered.

Concepts of

Fire Insurance, Marine Insurance, Fidelity Insurance, Crop Insurance, Motor Insurance and Credit Insurance.

LIFE INSURANCE

Meaning : Life Insurance is referred to as a contract between the insurer and the insured under which the insured takes policy on his/her life with the insurer who asures him to pay an agreed sum if he lives beyond the agreed period or to his legal heir if he dies within the agreed period.

Premium : The consideration, the insurer receives in exchange for such assurance for the insured, is called premium.

Elements of protection and Investment

Protection, when used in general sense, means an act of shielding, sheltering or defending some one or something from a probable threat or risk. In the contex of insurance, protection means an act of assuring coverage against certain insured risk with promise of compensation for such risk related losses when they occur.

Investment means using the saved money for caring more money on it in the form of returns on deposits or stocks and shares wherein the money is put.

In the context of insurance, investment means the benefit of extra earning or returns received against the premius regularly paid so that at the maturity of policy, the amount received normally remains always much higher than the total amount paid in the form of premium.

Importance of Life Insurance

(i) Protection against Risk of Loss of earnings

(ii) Encourages Savings

(iii) Option for the loan

(iv) Easy settlement of debt

(v) Tax Benefit

(vi) Social Security

(vii) Investment Element

(viii) Supports to Government

(ix) Option for better future planning

(x) Helps to lead a peaceful life ensuring a tension free life of the insured.

Procedure for effecting a Life Policy

(1) Filling of proposal form - while filling a proposal form there must be disclosure of all information.

(2) Age proof

(3) Medical Examination

(4) Agent Report

(5) Other Reports

(6) Assessment of Proposal

(7) Finalisation of the Proposal

(8) Issuing of 'Cover Note' followed by the issue of Insurance Policy.

Premium Computation

Premium is the price paid to the insurer by the insured for the services of protection it provides. Price for the service is calculated.

Calculation of premium is difficult to calculate

(i) The payment of price is not ordinarily effected in one time but spread over a number of years.

(ii) Calculation is complicated in comparison to price of goods and services.

However those are factors considered for computation of premium.

(i) Type of Policy

(ii) Age

(iii) Term of Policy

(iv) Additional Benefit

(v) State of health, occupation and hazard

(vi) Sum Assured

(vii) Mode of payment of premium.

Computation process involves two broad steps and they are : (A) Determination of tabular premium rate and (B) Calculation of Premium.

(A) Determination of tabular premium rate

(i) Risk Premium is determined on the basis of mortality table.

(ii) Risk premium is adjusted against interest components earned against the investment which gives Net Premium.

(iii) Administrative expenses, unexpected contingency and fluctuation are considered and added with net premium - to give office premium.

(iv) Finally there is modification of office premium.

(B) Caluclation of Premium

Step 1 - Find the tabular premium for the sum assured from the appropriate table.

Step 2 - Deduct rebates for large sum assured and for mode of payment.

Step 3 - Find out the balance premium with sum assured per Rs.1,000/- of sum assured.

Step 4 - Multiply this balance premium with sum assured for accident extra, health extra and occupational extra.

Step 5 - Add an extra premium on entire sum assured for accident extra, health extra and occupation extra, if they are chargeable.

Step 6 - Calculate final annual premium.

Various Policy Conditions :

Insurance Companies undertakes to the protect the insured against risks and uncertainities and pay the assured amount on the happening of contingency only on the basis of acceptance and compliance of certain terms and condition. Some commonly attached conditions in the insurance policies under the life insurance contract, are :

1. **Proof of Age -** Premium calculation is based on the age of insured. Normally the tenth certificate or certificate or certificate issued by Birth and Death register is used as common proof.

2. **Days of Grace -** For yearly premium payment not less than 30 days (also for half yearly or quarterly) and 15 days for monthly premium.

3. **Commencement of risk -** Date of commencement of risk begins from the date or payment of 1st premium.

4. **Antedating -** Means putting earlier date than the usual date.

5. **Non-forfeiture -** Act 1938 provides the non-forfeiture u/s 113 where premium has been paid continuously for at least 3 years shall acquire guranteed surrender value.

6. **Paid up value -** The sum assured is proportionately reduced when the insured discontinues the premium

payment after covering the minimum required paying period of 3 years.

$$\text{Formula - } \frac{\text{No. of Premium Paid x Sum Assured}}{\text{No. premiums payable}} \text{ x Balance (if any)}$$

7. **Surrender Value -** When the insured is urable to continue the payment of premium for any reasons, he surrenders the policy and gets back a portion of the premium that has paid earlier which is called surrender value.

8. **Extended term assurance -** When the policy lapses for any reasons, an option is there to convert the lapse policy into a Single Premium Term Assurance Policy for the original sum assured.

9. **Revival -** Once the policy has lapsed for any reason, it can be revived to the full policy amount at any time during the life time of the assured but before the expiry of a period of 5 years from the date of first unpaid premium.

10. **Assignment -** It means transfer of beneficial interest, right and title under a policy from assigner to assignee.

    Two types of assignment -

    Absolute - all rights, title and items, which the assigner has in policy passes on to the assignee without reversion to the assigner or his estate in any event.

    Conditional - Assigner and Assignee may agree that on the happening of a specified event which does not depend on the will of the assigner, the assignment may be suspended or revoked wholly or in part.

11. **Nomination -** U/S 39 of Insurance Act, 1938 the policy holder to nominate a person to whom the policy money will be given in the event of his death during the tensure of the policy.

12. **Loan -** Approximately 85% of Surrender Value is given as loan along with requisite interest charge.

13. **Foreclosure -** It means closure or writting of the policy before the date of maturity.

14. **Alternation -** Whenever the policy holder wants any charge in terms of the policy, he is to request the insurer in the prescribed form.

15. **Lost Policy -** If policy is lost or destroyed the insured must intimate to insurer to trace and after giving public notice in this regard, duplicate policy is issued.

16. **Indisputability of the Policy -** If insurer furnished any incorrect information or had concealed any material fact in the proposal form the insurance contract becomes null and wid and policy ceases to operate.

    However, U/S 45 of Insurance Contract Act, 1938 that after 2 years from the date of effecting the policy, it cannot questioned or ground of incorrect or false statement or any non-disclosure in the proposal form or in other documents unless it is shown to be on a material matter and fraudlently and deliberately made.

Mortality Table

Mortality table shows the duration for which people at different age groups are expected to live. In other sense, it is the table that exhibits the death rates at different age group.

Features of Mortality Table

1. **A statistical table -** Based on concepts and principle of statistics. Theory of probability and the Law of Average are used to project the survival and death rates of people belonging to different age groups.
2. **Yearly Estimation -** Each year is considered as the base for the calculation of death and survival rate of people of different age group under mortality rate.
3. **Average Date -** Average life span of people is taken into account.
4. **General Observation -** Possibility of death or surivival of people at large belonging to different age group.

Types of mortality table -

(1) **Aggregate Table -** Mortality rate of lives are derived from the mixture of select lives and ultimate lives.

(2) **Select Table -** Rate depending on both age and duration lapsed since entry.

(3) **Intimate Table -** Tabulated.

Settlement Claims -

An insurance claim refers to a claim for reimburshment from the insurance company when the insured has suffered a loss that is covered under an insurance policy.

Types of Claim in Life Insurance Policy

1. Survival Benefit Claim - Payable in endowment or money back policies.
2. Maturity Claim - Final payment on maturity of policy.
3. Death claim - Sum insurred of death claim to the nominee/beneficiary on the death of insured.

Types of Life Insurance Policies

On the basis of duration and number of Life Covered.

Life Insurance Policies on the basis of duration -

(a) Whole Life Policy - Policy amount will be paid at the death of insured persons to the beneficiry. This may be : Limited, Payment whole life policies convertible whole life policy.

(b) Term Insurance Policies.

(c) Endowment Insurance Policy. Payment either on death of insured or expiry of special period.

(d) Survivorship Insurance Policy - Risk Coverge more than one person.

On the basis of Number of Life covered

(a) Single Life Policy

(b) Multiple Life Policies - on the life of more than one person. Joint life and last survivor policy.

Types of Non-life Insurance

Fire Insurance : In this agreement, the insurer agrees to indemnity the loss caused by fire, to the insured for some consideration called premium.

Types of fire policies are : Specific Policy, Valued Policy, Average Policy, Floating Policy, Replacement Policy, Declaration Policy, Comprehensive Policy, Consequential Loss Policy.

Marine Insurance : This is a contract whereby the insurer undertakes to indemnify the insured in a manner and to the extent thereby agreed upon against marine losses.

Types of Policies : Voyage Policy, Time Policy, Mixed Policy, Valued Policy, Unvalued Policy, Floating Policy, Blanket Policy, Named Policy, single vessel and Fleet Polices, Block Policies, Currency Policy, Policy Proof of Interest Policieis (P.P.I.) Annual Policy.

Fidelity Insurance : The insurance policy covers various losses arising fro fraud or embezzlement of any type on the part of employees.

Credit Worthiness : Loss arises out of integrity and honesty.

Crop Insurance : Insurance underwritten by the insurer to cover the loss caused to the crop or agricultural commodities.

Motor Insurance : Covers the loss or damages caused to automobile or it's part due to natural and manmade calamities.

UNIT - IV

GROUP - A : OBJECTIVE TYPE QUESTIONS

1. From the following alternatives given below in each bit choose the correct answer.

1. Life Insurance contract is a :
   (a) Contingent contact
   (b) Contract of indemnity
   (c) Wagering agreement
   (d) Contract of sale of goods

2. Insurance contract is characterised by both the elements of investment and :
   (a) Compensation (b) Protection
   (c) Identification (d) Subrogation

3. In Life Insurance the insurable interest must be present at time of
   (a) Death of the policy holder
   (b) Policy is taken
   (c) Maturity of the policy
   (d) Both policy is taken and death of the policy holder

4. In Life Insurance, the principle of indemnity is :
   (a) Applicable
   (b) Not applicable
   (c) Applicable at the time of the maturity of the policy
   (d) Applicable at the time of death

5. Life Insurance Policy qualifies for surrender value after the expiry of a term of :
   (a) 2 years (b) 3 years
   (c) 5 years (d) 7 years

6. The other name of contract of uberrimae fidei is :
   (a) Contract of indemnity
   (b) Contract of subrogation
   (c) Contract of utmost good faith
   (d) Contract of insurable interest

7. Re-insurance means :
   (a) Making two insurance policies
   (b) Renewal of old policy
   (c) Sharing risk of the subject matter with another insurer
   (d) sharing the premium received with another insurance company

8. Proposal form is complete when it is :
   (a) Submitted with the insurer
   (b) Signed by the agent
   (c) Signed by the proposer
   (d) Accepted by the insurer

9. LIC started functioning from
   (a) September 1, 1956
   (b) September 1, 1965
   (c) September 1, 1960
   (d) September 1, 1959

10. A Life Policy matures :
    (a) On death
    (b) On maturity
    (c) On death or maturity which ever occurs early
    (d) None of the above

11. A whole life policy can be converted into an endowment policy after :
    (a) 2 years (b) 3 years
    (c) 4 years (d) 5 years

12. Life insurance undertakes insurance of :
    (a) Human life
    (b) Animal life
    (c) Both human and animal
    (d) None of the above

13. State the duration of grace period allowed when the payment of premium is an monthly basis :
    (a) 30 days (b) 25 days
    (c) 20 days (d) 15 days

14. State the time limit from the date of lapsation of policy when no medical examination of insured is required to revive the policy.
    (a) 3 months (b) 6 months
    (c) 9 months (d) 12 months

15. Name the type of assignment when it is being effected for valuable consideration.
    (a) Absolute (b) Conditional
    (c) Partial (d) Unconditional

16. Policy qualifies for surrender value when the premium has been paid continuously from the date of payment of first premium for at least :
    (a) 1 years (b) 2 years
    (c) 3 years (d) 4 years

17. Name the term used when the policy is written off before the date of maturity.
    (a) Abandonment (b) Cancellation
    (c) Dropout (d) Foreclosure

18. What is the maximum duration allowed from the date of first unpaid premium for the revival of a default policy ?
    (a) 5 years (b) 6 years
    (c) 7 years (d) 10 years

19. for half-yearly premium, the days of grace is :
    (a) 30 days
    (b) 15 days
    (c) 7 days
    (d) None of the above

20. In life insurance, risk starts when :
    (a) A policy is taken
    (b) First premium is paid
    (c) When assured dies
    (d) Non of the above

21. Net premium is a factor of :
    (a) Mortality rate
    (b) Sum assured
    (c) Present value of a rupee
    (d) All the above

22. Under which premium plan, the amount of premium goes an increasing year after year.
(a) Assessment Plan
(b) Natural Premium Plan
(c) Level Premium Plan
(d) None of the above

23. An instrument which helps in measuring the probability of life or death of an individual is termed as :
(a) Life Insurance
(b) Fire Insurance
(c) Mortality Table
(d) Premium Calculation Table

24. The consideration the insurer gets aganst the insurance contract is called :
(a) Premium (b) Bonus
(c) Sum Assured (d) Dividend

25. In term insurance policy the claim result only when there is :
(a) Maturity of the policy
(b) Death of insured
(c) Surrender of the policy
(d) Compliance of policy condition

26. In the year 1818, Life Insurance business in India took a new shape with the establishment of :
(a) The Oriental Insurance Company of India
(b) Life Insurance Corporation of India
(c) ICICI Prudential Life Insurance
(d) the New India Assurance Company

27. The oldest form of Insurance is :
(a) Life (b) Fire
(c) Marine (d) Motor

28. Marine Insurance Act was passed in the year
(a) 1938 (b) 1956
(c) 1963 (d) None of the above

29. Deliberate destruction of one's own property is known as :
(a) Incendiarism
(b) Arson
(c) Passive dishonesty
(d) None of the above

30. When subject matter is divisible and each part can be separated, loss to any part is termed as:
(a) Total Loss (b) Partial Loss
(c) General Loss (d) None of the above

31. In term insurance policy the claims result only when there is :
(a) Maturity of the policy
(b) Death of the insured
(c) Surrender of the policy
(d) Compliance of policy conditions

32. Risk premium is determined on the basis of :
(a) Mortality table (b) Statistical data
(c) Policy conditoins (d) Policy tenure

33. The office premium when is modified on the bases of actual experience of the insurance company is called :
(a) Risk premium (b) Net premium
(c) Tabular premium (d) Final premium

34. Underwriting charges is an example of :
(a) Service related expneses
(b) Premium related expenses
(c) Risk related expenses
(d) Policy related expneses

35. Age is assocaited with risk of
(a) Sum assured (b) Accident
(c) Disease (d) Death

36. In comparison to half yearly and quarterly premium rate annual premium rate is :
(a) Same (b) Fluctuating
(c) Lower (d) Higher

37. When are the administrative expenses added with net premium, it is called
(a) Total premium (b) Tabular premium
(c) Risk premium (d) Office premium

38. Mortality Rate is the calculation per
(a) Monthly (b) Half-yearly
(c) Quarterly (d) Yearly

39. The information furnished in the mortality table are in the natureof :
(a) Average (b) Absolute
(c) Partial (d) Specific

40. One of the method used in construction of mortality table is :
(a) Life year method
(b) Survival rate method
(c) Surrender value method
(d) Policy received method

41. The other name of general mortality table is :
(a) Aggregate table
(b) Select table
(c) Ultimate table
(d) Survival rate table

42. Which mortality table is used when policies are participating ones is :
(a) Aggregate table
(b) Ultimate table
(c) Select table
(d) Survival rate table

43. The mortality table which is suitable for group insurance is :
(a) Select table
(b) Ultimate table
(c) Aggregate table
(d) Survival table

44. Insurance from the risk point of view are :
(a) Personal Insurance
(b) Property Insurance
(c) Liability Insurance
(d) All of the above

45. The document the Insurance Company issues before the issue of full fledged insurance to be insured is called :
(a) Receipt Note
(b) Cover Note
(c) Report Note
(d) Advance Note

2. Do as Directed Questions

2 (a) Answer the following questions in one sentence each.

1. What is the definition given u/s 2 of Indian Insurance Act, 1938 of Life Insurance ?
2. What is unique features of Life Insurance?
3. What is relationship between element of investment and element of protection?
4. What do you mean by term Life Policy?
5. What is endowment Insurance Policy?
6. What is joint life policy of Life Insurance ?
7. What do you meant by last survivorship policy of Life Insurance?
8. What do you mean by 'Cover Note' issued to proposer by insurance company?
9. What do you mean by surrender value?
10. What do you mean by 'Assignment'?
11. What do you mean by premium?
12. What do you mean by mortality table?
13. What does fidelity insurance give protection?
14. Why Crop Insurance is made?
15. What do you mean by Credit Insurance?
16. What do you mean by Marine Insurance?
17. What do you mean by Fire Insurance?

2 (b) Express the following in one word / term each.

1. The process through which policy holder transfers his right in the policy to his preferred person.
2. What is the name of the document the insurer issues before the issue of the final policy?
3. What is the other name of insurable interest?
4. Name the principle of the insurance where both insured and insurer must disclose the material fact to each other.
5. Name the extra time the insured gets beyond the due date to pay premium.
6. Name the term when the insurer prepones the starting date of the risk of the policy.
7. Name the premium which is determined on the basis of mortality table in the process of calculating the tabular premium.
8. Name the premium which emerges after making all adjustment with the premium by the insurance company.

9. Which mortality table shows higher rate of premium of existing insured than forester ones, even though they belong to the same age group ?
10. Name the mortality table which is constructed without distinguishing the select and ultimate lives in a life business.
11. Which table starts at a point where, there is full survival and ends at a point where there is no survival i.e. death ?
12. A contract by which insurer guarantees to pay a certain sum of money to the insured in case of death of the insured as
13. Premium received by the insurer in a lumpsum is sufficient along with the return earned and to make the claim settlement is
14. A type of insurance in which the insurer promises to indemnify the insured person (employer) for some consideration termed as premium is called.
15. When a part of property insured is lost it is called as

2 (c) Correct the underlined portion of the following sentences.

1. The proposer of Life Insurance becomes insured when the pays the final premium.
2. Proposal forms are available with the insurance company.
3. The period the insurance company allows beyond the due date for the payment of premium is called extra time.
4. The process through which the beneficial interest, right and title of the life policy is transferred from insured to his preferred one is called nomination.
5. When the insured discontinues to pay the premium after the three years of insurance contract, the sum assured is reduced which is called insurable value.
6. Ultimate Table refers to a table which is constructed by considering age and the duration of policies.
7. Agent's commission is considered as policy related expenses.
8. Mortality charges are computed on the basis of Statistical table.
9. Premium reflects the insurable value of money.
10. Mortality tables are prepared for a period of 10 years.
11. Mortality table starts at a point where there is no survival.
12. Mortality table exhibits birth rate of the population.
13. Life Insurance contract is a wagering agreement.
14. 30 days of Grace Period is allowed when the payment of premium is or monthly basis.
15. Risk premium is determined on the basis of policy condition.

2 (d) *Fill in the blanks.*

1. The principle of _______ depicts that the insured must disclose all the material facts to the insurer.
2. _______ is the price of the risk undertaker by insurer.
3. _______ plays the linkman between the insured and insurer.
4. After the payment of _______ premium the proposer becomes insured.
5. No medical examination is required where the policy is to be revived within _______.
6. The maximum amont of loan is allowed against the life policy is _______ % of it's surrender value.
7. On foreclosure _______ ceases to operate.
8. Tabular premium evolves through _______ stages.
9. The amount for which the insured takes policy on his own life is called _______.
10. Information furnished in mortality table are _______ in nature.
11. the use of _______ table is a common practice in life insurance contract.
12. The duration for which the mortality table is generally prepared for one _______.
13. _______ record plays a vital role in the construction of mortality table.
14. In the event of death, policy money shall be payable to the _______.
15. All life policies are indisputable after _______ years of their issue.

UNIT - IV

GROUP - A : ANSWERS

1. *From the following alternatives given below in each bit choose the correct answer.*

1. (a) Contingent contact
2. (b) Protection
3. (b) Policy is taken
4. (b) Not applicable
5. (b) 3 years
6. (c) Contract of utmost good faith
7. (c) Sharing risk of the subject matter with another insurer
8. (c) Signed by the proposer
9. (a) September 1, 1956
10. (c) On death or maturity which ever occurs early
11. (d) 5 years
12. (a) Human life
13. (d) 15 days
14. (b) 6 months
15. (a) Absolute
16. (c) 3 years
17. (d) Foreclosure
18. (a) 5 years
19. (a) 30 days
20. (b) First premium is paid
21. (d) All the above
22. (b) Natural Premium Plan
23. (c) Mortality Table
24. (a) Premium
25. (b) Death of insured
26. (a) The Oriental Insurance Company of India
27. (c) Marine
28. (c) 1963
29. (a) Incendiarism
30. (a) Total Loss
31. (b) Death of the insured
32. (a) Mortality table
33. (b) Tabular premium
34. (b) Premium related expenses
35. (d) Death
36. (c) Lower
37. (d) Office premium
38. (d) Yearly
39. (a) Average
40. (a) Life year method
41. (a) Aggregate table
42. (b) Ultimate table
43. (c) Aggregate table
44. (d) All of the above
45. (b) Cover Note

2. Do as Directed Questions

2 (a) Answer the following questions in one sentence each.

1. Life Insurance business in defined as the business of effecting contract upon human life.
2. Life insurance is the only type of insurance which has unique feature of having both the combined elements of protection and investment.
3. There exist a kind of opposite or inverse relationship between investment and protection.
4. This form of policy provides protection for life for an agreed term or period.
5. This policy is taken for a fixed period, known as endowment term or period and matures on the event of death of the assured or on completion of fixed period whichever is earlier.
6. Joint life policy covers the risk of more than two individuals where the sum assured is payable at the time of maturity or at the death of the first assured whichever is earlier.
7. In case of last survivorship policy the sum assured in payable at the death of last survivor or on the date of maturity if earlier.
8. This letter is issued to the proposer to pay his first premium within the stipulated time.
9. When the assured is unable to continue the payment of premium for any reasons, he surrenders the policy to the insurer and gets back a portion of premium that he has paid earlier which is called surrender value.
10. Assignment is the transfer of beneficial interest, right and title under a policy form assign or to assignee.
11. The premium is the amount of money the insured pays to the insurer for the consideration of certainties against uncertainties.
12. Mortality table shows the duration for which people at different age group are expected to live.
13. This insurance policy provides protection to the employer against the loss due to dishonesty of his employees.
14. Crop insurance provides protection to farmers against crop failure due to natural calamities such as drought, flood, cyclone, hailstorm etc.
15. Under the credit insurance policy, the insurer undertakes to indemnify the policy holder against the risk of insolvency of a debtor.
16. Marine Insurance is a contract between the insurer and insured whereby the insurer undertakes to indemnify the insured against some specified insured maritime peril in exchange of a sum of money called premium.
17. A Fire Insurance contract is an agreement between insured and insurer where the insured pays premium to the insurer and in return insurer promises the insured to compensate loss due to fire.

2 (b) Express the following in one word / term each.

1. Assignment
2. Cover note
3. Pecuniary interest
4. Utmost good faith
5. Grace period
6. Ante-dating
7. Risk Premium
8. Net premium
9. Select mortality table
10. Aggregate mortality table
11. Mortality table
12. Life Insurance
13. Net single premium
14. Fidelity Insurance
15. Partial loss

2 (c) Correct the underlined portion of the following sentences.

1. First
2. Agent
3. Grace period
4. Assignment
5. Surrender
6. Select table
7. Premium
8. Mortality
9. Time
10. One Year
11. Full
12. Death rate
13. Contingent contract
14. 15 days
15. Mortality table

2 (d) Fill in the blanks.

1. Utmost good faith
2. Premium
3. Agent
4. First
5. 6 months
6. 85%
7. Nomination
8. 4
9. Sum assured
10. Average
11. Mortality
12. Year
13. Census
14. Nominee
15. Three

UNIT - IV

GROUP - B : SHORT TYPE QUESTIONS

3. *Answer the following questions within 30 words each.*

1. How far Life Insurance provides protection against uncertainties and risk ?
2. How far life Insurance is considered as Investment?
3. Define Life Insurance contact u/s 2 of Indian Insurance Act, 1938.
4. Life Insurance contract is a contract of uberrimae fidei or contract of utmost good faith. Justify.
5. Mention the relationship between element of investment and element of protection at different levels.
6. Why there is different types of insurance policies ?
7. What is Term life policy ?
8. Why Endowment Insurance Policy is popular ?
9. What do you mean by single premium policy ?
10. What is Level Premium Policy of Life Insurance?
11. What do you mean by participating policy of Life Insurance?
12. What do you mean by single life policies ?
13. What is the importance of medical report for effecting a Life Policy ?
14. Why agent report is necessary for effecting the policy ?
15. When insurance proposal is accepted ?
16. When 'Cover Note', issued by insurance company at time of payment of 1st Premium to honour the proposal, becomes invalid ?
17. What are common proof of age of insured for the calculation of premium.
18. How much Grace period is allowed to insured ?
19. Why Antedating of insurance policy is necessary ?
20. What Insurance Act, 1938 provides for default of premium even after lapse of Grace period ?
21. What is paid-up value of sum-assured of Insurance?
22. What do you mean by surrender value of Insurance Policy ?
23. What is extended term assurance of Insurance ?
24. How the policy is revived ?
25. What do you mean by Absolute assignment of Insurance Policy ?
26. What is conditional assignment of Policy ?
27. What do you mean by Nominations of Insurance Policy ?
28. When the nomination of insurance policy is ineffective ?
29. What are different components of premium ?
30. What are the factors affecting mortality charges while calculating premium ?
31. What are various expenses incurred by insurer from the beginning of the policy till it's maturity?
32. How net premium is calculated ?
33. What is Gross Premium ?

34. What do you mean by Natural Premium Plan in Insurance Premium Computation ?
35. What is level premium plan in premium computation ?
36. What do you mean by riders in Insurance ?
37. What do you mean by Insurance claim ?
38. Why Social Insurance is made ?
39. What does mortality table reveal ?
40. What are the subject matter of insurance of motor vehicles ?
41. Where aggregate mortality table is suitable ?
42. Where select table of mortality is beneficial ?
43. Where ultimate table of mortality provides maximum level of safety margin to the insurer?
44. What are different policy conditions applied in Insurance ?

4. *Answer the following questions within 50 words each.*

1. Why Life Insurance is not a contact of Indemnity?
2. Why Life Insurance contract is a aleatory contract ?
3. Why Life insurance contract is unilateral contract ?
4. How protection element remains in life insurance ?
5. How life insurance policy contains the element of investment ?
6. Why insurance contract is called as conditional contract ?
7. When insurable interest present in life insurance policy ?
8. Why life insurance contract is a contract of uberrimaefidei or a contract of utmost good faith ?
9. How finalization of LIC Insurance proposal is made ?
10. When insurer accepts the proposal of LIC policy?
11. What is consequency of non-payment of premium within the grace period ?
12. How paid-up value of LIC policy calculated ?
13. How surrender value of policy is calculated ?
14. How assignment or transfer of right and title of policy can be made ?
15. What do you mean by indisputability of the policy ?
16. Why sometimes additional premium or extra premium is charged on insurance policy?
17. What is basic feature of convertible term policy ?
18. What is the General observation of mortality table which is constructed to determine the premium rate of LIC.
19. How mortality table is used to encourage new insurance plan ?
20. What does mortality table furnish ?
21. What are different types of claim in Life Insurance Policies ?
22. What are scopes of fire insurance ?
23. What are different types of risks covered under marine Insurance ?
24. What are different classification of Insurance from the risk point of view ?
25. What do you mean by workmen's compensation insurance ?

UNIT - IV

GROUP - B : ANSWERS

3. *Answer the following questions within 30 words each.*

1. Though all type insurances provide against future risk and uncertainties but life insurance provides the same for longer period for total sum assured even on maturity of the policy.
2. Investment is an exclusive feature of life insurance as the insured in required to pay premium regularly till the maturity of policy or his death.
3. Life Insurance contract may be defined as a contract where by the insurer in consideration of premium paid undertakes to pay policy amount either in death or maturity.
4. The insured must disclose all material facts of policy and similarly insurer must of in the same good faith disclose the scope and other things of interest of the contract.
5. In the earlier periods of investment element stands at the lowest level and protection element stands as the highest level with every payment of premium reverse is true.
6. People differ from each other in their likes, choices and preferences in matter of buying decisions. They are motivated to buy when the market offers variety of products.
7. This form of policy provides protection for life for an agreed term or period only. If insured dies during the period the benefit will be given to nominee otherwise not.
8. The policy is popular because it covers two benefits which accrue simultaneously, namely investment and protection. On death of the assured or completion of fixed period, policy amount is payable.
9. Entire amount of premium is payable in one instalment. this policy matures on the death of the assured or on his attainment of agreed terms or period whichever is earlier.
10. In this policy, regular and equal premiums are paid at a definite interval like annually, half-yearly, quarterly or monthly. This policy is suitable for the regular earning persons.
11. The policy holder is entitled to get a share of profit of the insurer. The premium rate is higher than non-participating. In India LIC distributes 95% of profit.
12. This policy is designed to cover the risk of life of an individual either on one's own life or life of another.
13. Medical report gives an exhaustive physical and clinical examination of the proposer for considering policy. It is the instrumental in cancelling or reducing or increasing the premium amount.

14. Agent acts as the negotiation between the proposer and insurer. Agent holds expertise knowledge about the financial, social and physical status of the proposer and final comment on the proposal.

15. After making indepth study by insurer about life style, health condition, Financial position, occupational and residential hazard of insured, the proposal of insured will be accepted.

16. In the beginning normally the life policy is not issued because of complicacy and cover note is issued. Once the permanent policy is issued, the cover note becomes invalid.

17. Generally, proof of age is available from records like school certificate, horoscope, certificate from local bodies. Tenth certificate or certificate issued by Birth and Death register, is used as common proof.

18. Generally, grace period of one month not less than 30 days is allowed for the payment of yearly, half yearly or quarterly premium and 15 days for monthly premium.

19. In life insurance the insurer ante-dates the commencement of risk in order to help the insured to avail the benefit of lower rate of premium.

20. When the policy holder becomes defaulter and his policy lapses. No claim is entertained. But Insurance Act does not permit such default under clause of non-forfeiture provision.

21. The sum assured is proportionately reduced when the insured discontinues the premium payment after covering the minimum required paying period of three years.

22. When the assured is unable to continue the payment of premium for any reason, he surrenders the policy to insurer and get back a portion of the premium already paid.

23. When the policy lapses for any reason, an option is there to convert the lapse policy into a single term assurance. The duration of policy is extended.

24. The lapsed policy can be revived to full policy amount at any time during assured life time but before expiry of 5 years from the date first premium paid.

25. In absolute assignment all rights, title and interest of assigner passes to assignee without reversion to assigner or his estate in any event.

26. Here, the assigner and assignee may agree that on the happening of specified event not on will of assigner, the assignment may be revoked wholly or in part.

27. The policy holder to nominate a person to whom the policy money will be given in the event of his death during the tenure of the policy.

28. The nomination is ineffective

    (i) When the nominee dies where the policy holder is still alive.

    (ii) Nominee dies after death of policy holder but before receiving policy money.

29. The premium that the insured pays for taking life policy is computed taking into consideration three components namely mortality charges, expenses and investment/interest.

30. It covers major part of the cost of risk and the amount varies with age, health of policy holder, coverage amount, tenure of policy, occupation of individual.

31. There are two fold expenses in that matter those are :

    (i) Premium related expenses such as agent's commission, underwriting charges, medical examination fees etc.

    (ii) Policy related expenses for policy maintenance.

32. Insurance companies use the mortality table to determine the mortality rate at certain age which is further multiplied by total sum assume and from that into accused interest is deducted.

    Net premium = (Mortality Rate of Certain age x Total sum assured) - Interest accrued.

33. It is the sum total of net premium and loading (Insurance expenses). Loading refers to expenses related to managerial and other unforeseen insurance expenses.

    Gross Premium = Net premium + Insurance expenses (Loading)

34. In this case the premium is calculated or the basis of mortality table. The personal contribution of premium is being determined according to the age of assured.

35. This is known as installment premium plan under which a uniform rate of premium is charged every year based upon the mortality. Increase in age does not influence the premium.

36. Riders are add-on benefits attached by insurance companies to their policies in case of casualties. Rider has made life insurance more attractive and beneficial to insurance seekers.

37. Insurance claim is formal request to an insurance company asking for a payment based on the terms of insurance policy by the insured or his nominee.

38. The main aim of Social Insurance is to help the community to fight against risk of disease, old age, industrial accidents, unemployment and above all the evils of poverty.

39. Mortality table shows the duration for which people at different age groups are expected to live - that means it exhibits the death rates at different age group.

40. The subject matters have been classified into three categories.

    (i) Private cars

    (ii) Commercial vehicles

    (iii) Motor cycles, Scooters and auto-rickshaw under the mother vehicle Act, 1939.

41. This table is suitable where no selection is required. It is also used in Group insurance. This table does not differentiate new or old insured of particular age group.

42. Select table of mortality is constructed by considering age and the duration of policies. It is beneficial in those cases where accurate and reliable data about deaths are available.

43. In this case the raise in the selected period are not considered and ultimate rates are calculated. It gives maximum rate to death and provides maximum level of safety margin.

44. The policy conditions applied in insurance are of following types

    (a) Conditions relating to commencement of risk, premium and continuation of policies.

    (b) Capse conditions

    (c) Claim conditions

4. Answer the following questions within 50 words each.

1. This is so as the loss due to human life cannot be assessed but the insurer pays the assured sum. In case of fire and marine insurance, the actual loss or assured sum whichever is less is payable but in life insurance this is not such.

2. In ordinary contract consideration is equal for both parties. But in life insurance contract this is not such. The full assured sum is payable (when death occurs) even if all premiums are not paid. Even though, the assured gets more, it cannot be termed as a wagering interest.

3. The life insurance contract is unilateral in the sense that only the insurer makes an enforceable promise of the insured has paid the fist premium, the insurer is bound to accept subsequent premium and is under legal obligation to pay the claim.

4. Life insurance provides protection against premature death of the insured. That means if the policy holder dies before the policy expires the nominee or representative or dependants are promised the assured sum along with bonus accrued to the policy. The financial hardship on family of deceased policy holder is reduced.

5. Element of investment remains in life insurance policy when insured does not die, he receives the full policy money along with bonus accrued on the policy at the end of policy period. The amount of return at times is even greater than the maturity value of policy.

6. In life insurance contact, the insurer will pay the claim only if certain conditions are fulfilled. First, the insured must have paid the premium continuously. Second, he has to submit the proof of death or other conditions mentioned in the policy.

7. Insurable interest must be present in the person insured at the time when policy is taken but there is no necessity that insurable interest must be necessity that insurable interest must be present at time of insured's death. However, an individual always has an insurable interest in his own life. Its presence is not required to be proved.

8. This is so as the insured must disclose all the material facts and figures about himself known to him but unknown to the insurer. Similarly, the insurer must in the same good faith disclose the scope of insurance and other things of interest to the insured.

9. Once the insurer is satisfied with feasibility of the proposal, he compares the risk involved with the sum assured and the risk involved with the sum assured and the premium to be charged. If he feels risk involved is too much, the portion of risk may be shared with another insurance company.

10. The date on which the proposer pays his first premium and it is accepted by the insurer, the risk under policy commences. In the event, the acceptance letter is conditional, on the fulfillment of such condition by the proposer, the risk under policy commences.

11. Non-payment of premium within the grace period is considered as default on the part of the policy holder. In case of death of assured is taking place during the grace period, full assured sum less unpaid premium is payable to the legal heir.

12. This is calculated when the insured discontinues the premium payment covering the minimum required paying period of three years. It is calculated as a percentage of premium paid to premium payable to sum assured plus bonus if any, policy must acquire some minimum value to become paid-up.

Paid-up value =

$$\frac{\text{No. of premium paid x Sum assured}}{\text{No. of premium payable}} + \text{Nonus (if any)}$$

13. Though it differs from company to company but in most case it is limited to the total amount of premium paid at the time of surrender. Rate of surrender values are given by various insurers which is a certain percentage of premium paid or a percentage of paid-up value.

14. Assignment can be done either by endorsement upon the policy itself or by a separate duly stamped deed. Assignment must be in writing and assigner's signature with a witness is a must. Notice of assignment should be submitted to insurer. Assigner must be major and right over policy.

15. Section 45 provides that after 2 years from the date of effecting the policy, it cannot be questioned once grounds of incorrect or false statement or any non disclosure in the proposal form or in other documents unless it is shown to be on material matter and fraudulently and deliberately made.

16. When the state of health of the insured is classified as non-standard an additional premium rate may be charged. Similarly, when the occupational or professional activities of the life of assured in hazardous or exposes him to any additional risk, an extra premium may be charged.

17. The basic features of this policy are :

(a) Persons aged over 40 and people engaged in hazardous jobs are denied this policy.

(b) Premium rate is recast at the time of conversion.

(c) No further medical test is necessary at the time of conversion.

18. Mortality table does not predict the death or survival of a particular person. It observes the possibility of death or survival of people at large belonging to different age groups. This prediction is related neither to a person nor to a person of particular age.

19. Mortality table present the probable death rates of people of different age groups. This helps the insurance companies to draw different attractive plans for different age groups to cater their preferences. Long term plans with varieties for age group with low morality rates can be drawn and reverse for high mortality rate.

20. Mortality table furnishes varieties of information like income, losses, risks and probable claims in a year in advance. This makes the insurer alert about the further and helps him to prepare plans and policies accordingly to counter system challenge and avail the opportunities for the benefit of the business.

21. Following three types of claims are :

    (a) Survival Benefit claim - It is payable in endowment or money back policies.

    (b) Maturity claim - Insurance company is under obligation to pay maturity claim amount on due date.

    (c) Death claim - this arises if the life assured dies during the term of policy.

22. The scope of fire insurance can be divided into two parts :

(a) Ordinary scope - Covers the losses caused by fire only.

(b) Comprehensive scope - Cover the various types of risks allied to the risks of fire, coverage of such risk under the purview of fire insurance has hidered the scope.

23. Marine insurance provides protection against loss of marine perils. These perils cause damage, destruction or disappearance of the ship and cargo and non-payment of freight. Thus, marine insures ship (Hull), cargo, freight. Marine insurance insures all types of risks which can occur during transportation on high seas.

24. Insurance can be classified into four categories :

    (a) Personal insurance - Subject matter of personal insurance in the persons.

    (b) Property insurance - types of property are fire, marine, motor, livestock, theft, agriculture insurance etc.

    (c) Liability Insurance - to compensate the losses of third party.

    (d) Fidelity Guarantee Insurance - Compensate of losses due to dishonesty.

25. This scheme was introduced with the objective of helping the employer in the events when they become liable to pay compensation to the workers under the provision of labour laws. Insurance company undertakes to compensate the loss of employer which arises on account of liabilities towards the payment to worker.

UNIT - IV

GROUP - C : LONG TYPE QUESTIONS

1. Discuss essential features of Life Insurance.
2. Discuss the importance of Life Insurance.
3. Mention the different types of life insurance policies.
4. Discuss the procedure of effecting of Life Policy.
5. How premium is computed to determine price of insurance ?
6. Discuss the different premium plan.
7. What are conditions relating to commencement of risk and with regard to premium ?
8. What are conditions during the tenure of policy ?
9. What are conditions relating to lapse and revival of policy ?
10. What are conditions regarding settlement of claims of policy ?
11. How process of premium compution is made ?
12. Discuss the features of mortality table.
13. Discuss the importance of mortality table.
14. Mention the criticism of mortality table.
15. Discuss the process of construction of mortality table.

UNIT - IV

GROUP - C : ANSWER

1. Features are :

(a) Based on a valid contract - Long term contract between insurer and insured. All essential elements of contract must be fulfilled.

(b) Principle of indemnity not applicable. It binds the insurer to pay the insured sum and not to indemnify the loss as death can neither be calculated in monetary terms nor money is any compensation for the loss of one's life.

(c) Presence of insurable interest. Insurable interest must be present in the person insured at the time when policy is taken.

(d) Observation of utmost good faith - Insured must disclose all material facts. So also insurer must disclose the scope of insurance.

(e) Payment of Premium - Premium is the price charged and collected by the insured for the risk of loss undertaken by him.

(f) Provision for assignment and nomination. Assured is free to assign or transfer his policy by the execution of endorsement on the policy itself.

(g) Attachment of conditions - Policy remains valid only when the assured complies the different conditions.

(h) It contains elements of protection and investment.

2. Importance or significance of Life Insurance can be stated as follows :

(a) Protection against risk of loss of earnings - In life insurance, protection is given against the risk of loss of learning due to the death of insured.

(b) Encourage thrift - life insurance encourage savings habit.

(c) Option for loan - Whenever the insured is in the need of money, he can arrange such amount on the basis of the surrender value of the policy from the insurer.

(d) Easy settlement of debt - On the maturity, the life insurance policy can be assigned in favour of the creditor to settle the debt.

(e) Tax benefit - 80C Income Tax Act, the premium paid is allowed as deduction from gross total income.

(f) Social Security - Insurance company extends financial support to the families of insured in the event of premature death.

(g) Investment Element - The premium which the insured pays is well protected as insurance companies are created with legal section.

(h) Supports to government - life insurance companies extend long term financial support.

(i) Option for better future planning.

(j) Helps to lead a peaceful life - life insurance plays a vital role in ensuring a tension free life of the insured.

3. Wide varieties enlarge the space and scope for accomodating the offices and preferences of all varieties of customer.

(A) On the basis of tenure or time

- Whole-Life Policies
  - Limited Payment whole Life Policy (Policy holder is allowed to pay premium during the earlier years)
  - Single Premium whole Life Policy (total premium is paid once)
  - convertible whole Life Policy (Life policy can be converted into an endowment policy)
- Endowment Policies
  - Pure endowment with return policy or without return
  - Double Endowment Policy
  - Triple Benefit Endowment Policy
  - Joint Life Endowment Policy

Other Endowment policies are

(a) Marriage endowment policy.

(b) Educational Annuity Policy - to meet the educational expneses of the children. Assured sum is not payable in lumpsum but in half yearly instalments over a period of 5 years.

(c) Mortgage redemption Assurance Policy - this policy is issued to male members in between endowment assurance.

(B) On the basis of Number of lives covered.

(a) Single Life Policy - Insurance covreage is given to a single person.

(b) Joint Life Policy - Two ormore lives are given insurance coverage in one policy.

(c) Last Survivor Assurance Policy- Joint Life Policy which remain in force till the last but one member dies.

(C) On the basis of the methods of premium payment.

(a) Single Premium Policy - Whole Premium is paid when the policy is taken up.

(b) Level Premium Plan - Equal amount of premium is paid on regular interval.

(D) On the basis of Term Insurance

(a) Straight term - This temporary insurance policies are issued for a two-year term.

(b) Renewable term policy - When a term policy can be renewed for further period.

(c) Convertible Term Policy

(E) On the basis of participation of profit

(a) With profit policy

(b) Without profit policy

4. The general accepted procedure of effecting life policy for LIC and Private Insurance Companies, are as follows :

(i) Filling of the proposal form - It seeks information relating to name, address, nationality, sex, occupation - both past and present, date of birth, father's name, assured sum, mode of payment or premium, age, duration of the policy, type of policy to be undertaken.

(ii) Proof of Age - Insured has to submit a copy of matriculation certificate or birth certificate issued by Municipality/Notified Area Council.

(iii) medical Examination - Insurer conducts medical examination on the whole body of proposed insured by it's approved doctors.

(iv) Agent's Report - The agent prepares a report and sends to the insurer confidentially.

(v) Acceptance of proposal - Insurer scrutinizes the proposal form, medical reports and the agent's report to find out acceptance or rejection of proposal.

(vi) Payment of first premium - On receipt of the acceptance letter, the proposer pays the first premium and risk commerces for insurer.

(vii) Issue of Policy - Policy is a stamped document issued by the insurer containing all the terms and conditions of the life insurance contract.

5. Premium is the consideration paid by the insured to the insurer. the insurer, in return underwrites the risk of insured. It is the price of insurance. Premium is of two types : (a) Net Premium, (b) Gross Premium.

(a) Net Premium - It is the premium that is just sufficient to meet the claim of all policy holders. It does not leave anything for meeting various expenses and for profit.

Net Premium = Mortality rate x sum assured x Present value of a rupee

Mortality rate in the ratio of number of persons expected to die at the end of a certain period out of a given group of persons. It refers to the probability of death of a person at a particular age.

Mortality Rate = $\dfrac{\text{Number of death during the year}}{\text{No. of persons living at the beginning of the year}}$

The process to calculate mortality rate

(i) Select a large number of person who belong to the same age.

(ii) Record number of death each year

(iii) Deduct the number of death each year to find out the number of survivors each year.

(iv) Continue the process till all members of group die.

This is a difficult and cumbersome process. So, the insurers prepare their mortality table or the basis of

(a) Population statistics

(b) Records of insurers

(b) Gross Premium

Gross Premium = Net Premium + Expenses + Loading for Profit - Interest.

Expenses - Insurer incurs some expenses at the time of claim. Such expenses are :

(i) Initial expenses - Agent's commission, Dr. fees, Preparation of policy.

(ii) Recurring expenses - Expenses on issue of premium notice, premium receipt, keeping accounts, renewal commission to agents.

(iii) At time of claims - Expenses or approval of claim, scrutiny of records, correspondence. Settlement of claim.

(iv) General expenses - Maintenance and establishment expenses, legal expenses, office salary, stationery.

Dr. Sprague's formula to cover initial, renewal, general office expenses.

Loading for Profit - Premium collected by an insurer should not only be sufficient to meet the claim and expenses but also it must generate some surplus. This surplus (profit) is technically called loading for profit.

Interest - The insurer collect huge amount as premium. Since all policies do not become claim at a time, the insurer invest such fund in selected securities, preferably in Government and Government approved securities.

6. Different methods tried to far are termed as premium plans. These are :

(a) Assessment Plan - Under this plan persons interested in protection of their lives from a group. When a person in group dies, equal amount was collected from the surviving members to pay the dependents of the decreased. So the members' contribution was assessed only when a person in the group dies.

(b) Natural Premium Plan - Under this Plan premium was calculated on the basis of mortality rate. The premium to be paid is fixed in advance and charged at the commencement of the year. The premium payable by a person goes on increasing year after year as mortality rate increases with increase in age. Persons belonging to different age groups par differed amount of premium. The older ones were paying more premium then the younger ones.

As the premium rate is charged every year as the insured becomes older and older, this plan is also termed as "Yearly Renewable Term Plan".

(c) Level Premium Plan - this is latest plan and is on operation now-a-days.

Under this plan a uniform rate of premium is charged every year for a particular age basing on the mortality rate. The amount charged as premium remains the same year after year even with increasing age. So, it eliminates the hardship of paying more premiums at old age.

In the initial years, the cost of insurance is less. So, the larger premium charged under the plan during the initial years accumulates to form a fund. This fund is utilized in the later years to level the premium when cost of insurance becomes high. The insurer invests those funds in the outside securities to generate interest and dividend.

7. Conditions relating to commencement of risk :

(i) Commencement of risk - Risk in Life Insurance starts on receipt of the first premium or the date of insurer's letter of acceptance whichever is later. If premium is paid along with the proposal form, the date of the letter of acceptance of insurer shall be date of commencement of risk. After the risk is accepted, policy is issued.

LIC of India allows the facility of ante-dating of one month and 15 days without any interest. (Anti-dating means putting earlier date than the usual date). If ante-dating period is more it charges interest at 10.5% p.a.

(ii) Proof of Age - Proof of age is very essential at the time of making proposal as it determines the premium rate. The insurer does not withhold issue of policy for want of proof of age but does not admit claim unless age is proved.

If subsequently it is found that the stated age is lower than the actual age, the assured sum is reduced as it would have been with the actual age. In the reverse case, the difference is either refunded or adjusted in future premium or the assured sum.

Conditions with regard to premium

(i) Payment of premium. Premium is fixed by the insurer after taking into account the age, policy money, period of insurance and risks attached to a life. Premium is calculated annually. But for the convenience of insured it may be paid for half-yearly, quarterly or monthly.

(ii) Days of Grace - This is the number of days beyond the fixed date due date during which the policy remains in free.

(iii) One calendar month but not less than 30 days in allowed as grace for payment of yearly, half-yearly and quarterly premium while it is 15 quarterly premium while it is 15 days if premium is payable monthly.

8. Those conditions are :

(i) Indisputable / Incontestable clause : This conditions states that all policies shall be undisputable after 3 years from the date of issue except non-payment of premium or for fraud. Therefore, policy cannot be rejected by the insurer on account of mis-statement, misrepresentation or non-disclosure of material facts after 3 years of the issue of policy.

(ii) Alteration is policy - Changes as the insured limits; may be in terms or duration, change in assured sum, change in mode of payment etc. The insurer has the right to accept or reject such request. Generally, the insurer accepts the alteration which are favourable to him and rejects the alteration that increases his risk.

(iii) Exclusion - The insurer will accept the risk within the premium charged and not cover the hazardous occupation of insured.

(iv) Cost of Policy - If the policy is lost or damaged, the insured must inform the insurer immediately. On satisfactory evidence of loss or destruction, the insurer will issue duplicate and assured pays requisite fee, stamp duty and other incidental expenses.

(v) Loan - Insurer may grant loan to the policy holder on security or surrender value of the policy either 90% of surrender value in case or unencumbered policies and 85% of surrender value for reduced assured sum. Interest rate 7.5% p.a. payable half-yearly.

(vi) Nomination - Name of the person to whom claim money shall be payable. It can be charged u/s 39 of Insurance Act.

(vii) Assignment - Transfer of right or title or policy to any person by endorsement. Assignment two types - Absolute and conditional.

(viii) Suicide - If death occurs due to suicide within one year of the policy, the sum assured shall not be payable. But if a person has acquired the policy with valuable consideration and has given notice to the corporation at least one month before death, his interest will be protected.

(ix) Double accident benefit - This condition states that double the assured sum shall be payable if death of insured occurs due to death.

(x) Disability benefit - This policy condition states that if the life assured becomes totally and permanently disable due to accident, he will be exempted from paying further premium failing due after disablement.

(xi) Extended disability benefit - Under this condition, if an assured becomes totally and permanently disable due to an accident, he will get assured sum immediately and he is waived of paying further premium.

9. Lapses and Revival of a Policy - If the policy holder facts to pay the premium within the period of grace, the policy lapses. The contract of insurance comes to an end and the liability of the insurer ordinarily ceases. This is termed as lapse of policy. Such a situation causes hardship to the policy holder particularly when the policy has remained in force for a fairly long period.

The corporation provides for the renewal of lapses policy at any time before the expiry of five years from the date of such lapse (from the due date of first unpaid premium). The policy can be revived within 6 months without the evidence of health. However, the insured has to pay interest as 7.5% p.a. on the arrear amount calculated as half-yearly. A policy is revived after 6 month only after production of satisfactory evidence of health and habit of the insured. There should be no adverse charge in personal or family history or occupation.

Special revival scheme - Sometimes, the insured is not able to revive the policy due to burden of arrear premium. In such a situation, the insurer may allow to revive the policy by relating. Under this scheme, the date of commencement of the policy will be fixed by dating back the policy. The period for which will be dated back depends on the amount of arrear premium. A new policy is issued in place of the old one. The insured is required to pay differential amount of premium i.e. arrear premium with interest less premium due in the new policy.

Such revival is possible when the following conditions are full-filled.

(a) The policy must not have acquired surrender value.

(b) The period of lapse must not be less than 6 months and not over 2 years.

(c) Such revival is not allowed more than once in one policy.

10. Claim in a life policy arises either on death or on the expiry of the term of policy. So, claim can be categorized as (i) Maturity claim, (ii) Death claim.

(i) Maturity Claim - Claim arising at the expiry of the policy period is simple. the beneficiary has to submit the following document for settlement of claim.

(a) Proof of age, if age has not been admitted so far.

(b) Original policy for cancellation.

(c) Discharge voucher filled in by policy holder.

(d) If the policy has been assigned, the beneficiary has to surrender the assignment.

(ii) Death claim - On the death of the policy holder, the information of death must be communicated to the insurer either by the nominee or assignee or near relative. The claimant will be asked to submit the following document for settlement of claim.

(a) Proof of age, if not admitted earlier.

(b) Original policy.

(c) Proof of death - for natural death, the death certificate from municipality or N.A.C. or other competent authority is to be retained and submitted, for unnatural death, a certified copy of policy Inquest Report or post mortem report is to be submitted.

(d) Certificate of identify either from employer or form any respectful person.

(e) Proof of title (legal heir certificate) may be submitted in case no nomination or assignment proof of title can be ensured, through the probate of will or succession certificate or Administration General's Certificate.

11. The computation process involves 2 broad steps and they are : (i) Determination of tabular premium rate, (ii) Calculation of premium.

(i) Determination of tabular premium rate. The tabular premium involves 4 stages.

(a) Risk premium determined on the basis of mortality table.

(b) Risk premium amount is then adjusted against the interest compared earned against the investment to give net premium.

(c) Administrative expenses, unexpected contingency and fluctuation are consider that give office premium.

(d) Tabular premium.
After that calculation premium rate is made.

12. Mortality table shows the duration for which people at different age groups are expected to live.

Following are the features of mortality table.

(a) Mortality table is a statistical table based on concepts and principles of statistics. Such as theory of probability, the law of average.

(b) Yearly estimation

(c) Average date - It is quite natural that some people may live for longer period then others who may be living for every short period. In the construction of mortality table the information on ages of all are not reflected rather average life span of the people is taken into accounts.

(d) General observation - Mortality table does not predict the death or survival of a particular person. It observes the possibility of death or survival of people at large belonging to different age groups. This prediction is related neither to a person nor to a person of particular age.

(e) Point of commencement and ending - Mortality table starts at a point where there is full survival and ends at a point where there is no survival i.e. death.

13. Common use of mortality table is due to several reasons which are stated below :

(i) Reliable - The process of construction of mortality table is based on certain procedures or methods which are already proved to be correct in different areas such as mathematics, statistics, science etc. As a result, the information furnished furnished in mortality table are accurate and reliable.

(ii) Encourages new insurance plans - Mortality tables present the probable death rates of people of different age groups. This helps the insurance companies to draw different attractive plans for different age groups to cater to their preferences.

(iii) Determination of costs - By providing the probable death rate of an age group, mortality table helps the insurer to assess the amount of compensation it will bear in a particular year.

(iv) Determination of risks - Whenever the insurer gets any proposal for insurance, mortality rate helps him to assess the risk (probability of death) involved in that proposal.

(v) Scope for extra income - Mortality table helps the insurer to assess the number of death - claims and time of payment of claims in a year. This advance information gives the opportunity to insurer to measure the time gap between premium received and the payment of claims. He makes full use of the time gap to invest the ideal premium amount in some direction to magnify his income.

(vi) Effective management - Mortality table furnishes varieties of information like income, losses, risks and probable claims in a year in advance to insurer. This makes the insurer alert about the future and helps to prepare plans and policies accordingly to counter such challenge and avail the opprotnities for the benefits for the benefits of the business.

14.(i) The collection of such huge information, their appropriate processing and finally, determining mortality table is not an easy task.

(ii) Normally census records are used as the basic source of information. But it is not beyond doubt because there is every possibility of over estimation and under estimation of information in some case.

(iii) Another problem is to know the actual death of persons belonging to different age groups. Due to ignorance and social custom, people do not like to reveal death of different persons in their locality.

(iv) Census is conducted at the interval of each ten years. The information furnished by census records are not of recent time.

(v) Census records give statistics of all type of persons without any classification from insurance angle while insure requires mortality of only insurable ones.

(vi) Finally, the construction of mortality table is both expensive and time consuming.

15. The construction process of mortality table is not an easy job. It is lengthy and cumbersome However, a brief account of it's procedure is given below in stepwise form.

(i) Identification of objective - This will help in the collection of required data and their proper processing. The objectives may be for determination of premium, evaluation of mortality or some other objectives.

(ii) Selection of statistical methods - Once the objective is clearly set, appropriate statistical method must be selected.

(iii) Selection of sources of information proper identification of source of information is essential and very crucial. This is because, the quality, precision and adequacy of information of the sources determine the usefulness of the mortality table. Principally, there are two sources - census records and experience data of insurance companies.

(iv) Determination period of record - The longer the duration of mortality table, the possibility of obsolescence is more. Similarly, shorter the life span lesser will be the utility of mortality table. Therefore, balance of period should be made.

(v) Method of construction of mortality table - Appropriate method must be finalized for the construction of the mortality table. The methods are (a) Life year method (b) Calender year method (c) Insurance Policy method, (d) Census method.

(vi) Analysing risk of the person to be included in the mortality table. There should be through investigation of the death rate of persons going to be included in the mortality take to determine the mortality rate.

(vii) Determination of mortality rate - Once the number of persons whose risk of factors have been identified and included, the ratio of death is determined for the formation of mortality table.

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