Banking

&

Insurance

Standard X

Study Material

Manuscript

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Learning Objective – Unit 1

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<tr><td>Basic Understanding of Negotiable Instruments</td><td>1. Meaning of Negotiable Instruments
2. Definition of Negotiable Instruments(Sec 13)
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2. Enumerate the characteristics of Negotiable Instruments
3. Name the various types of negotiable instruments.</td><td>Interactive lecture- On concept of Negotiable Instruments
Activity – Collect various types of Negotiable Instruments</td></tr>
<tr><td colspan="4">SESSION-2 TYPES OF NEGOTIABLE INSTRUMENTS</td></tr>
<tr><td colspan="4">1. Cheque</td></tr>
<tr><td>Cheque-Its concept, features, MICR, forms of cheques</td><td>1. Describe the meaning of cheques
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5. Meaning of cheques in electronic form and truncated cheques</td><td>1. Evaluate the characteristic of cheques.
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4. Explain the concept of cheques in electronic form and truncated cheques</td><td>Interactive lecture- Discussion on the most important Negotiable Instruments - cheques, its types and MICR
Activity
1. Draw specimen of a cheque
2. Collect cheques of 5 different banks
3. Fill the cheques.</td></tr>
<tr><td colspan="4">2. B/E (BILLS OF EXCHANGE)</td></tr>
<tr><td>Concept of Bills of Exchange and its features with specimen</td><td>1. Definition of Bills of Exchange
2. Features of Bills of Exchange
3. Draw the specimen of Bills of Exchange</td><td>1. Explain the concept of Bills of Exchange
2. Describe its key features.
3. Usage of Bills of Exchange</td><td>Interactive lecture on the meaning and concept of Bills of Exchange
Activity – Draw the specimen of Bills of Exchange</td></tr>
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	3. **Promissory Note**			
	Concept of Promissory Note its features and specimen	1. Meaning of Promissory Note 2. Key element of Promissory Note 3. Specimen of Promissory Note	1. Explain in detail the meaning of Promissory Note 2. List out the major features of Promissory Note 3. Suitability of Promissory Note	**Interactive lecture** Highlight the role of Promissory Note as a Negotiable Instrument and its usage **Activity** – Draw specimen of Promissory Note
	SESSION-3 PARTIES TO NEGOTIABLE INSTRUMENTS			
	Core concept of various parties of Negotiable Instruments	Discussion on parties to Negotiable Instruments • Drawer • Drawee • Payee • Endorsee • Endorser	1. Describe the role of parties to Negotiable Instruments 2. Evaluate the key responsibilities of each party to Negotiable Instruments	**Interactive lecture** Classroom lecture with suitable examples **Activity -** Role play
	SESSION 4 CROSSING OF CHEQUES			
	Basic concept of Crossing of Cheques, Types of Crossing of cheques	1. Meaning crossing of cheques 2. Requisites of crossing of cheques 3. Various forms of Crossing ➢ Special Crossing ➢ General Crossing ➢ Account Payee Crossing 4. Describe who can cross cheques?	1. Describe with Illustrations various forms of crossings 2. Enlist the persons who can cross a cheque 3. Elucidate the significance of Crossing of Cheques	**Interactive lecture** on importance of Crossing of cheque, the persons involved and its forms **Activity** -Show various types of crossing on a cheque (actual / hypothetical)

UNIT 1

LAWS RELATING TO NEGOTIABLE INSTRUMENTS (NIS)

OBJECTIVES

After reading this unit you will be able to:

- Describe the features of Negotiable instruments
- Summarise the types of negotiable instruments and their features
- List the parties to the Bill of Exchange and their roles and responsibilities
- Illustrate the types of crossing of cheque and its importance

STRUCTURE

1.1.Introduction to Negotiable Instruments

1.2.Types of Negotiable Instruments

1.3.Parties to the Bill of Exchange

1.4.Crossing of Cheques

1.5.Summary

1.6.Practice Questions

1.1. Introduction to Negotiable Instruments

A. Meaning of Negotiable Instruments:

The word "Negotiable" means Transferable by Delivery" and "Instrument" means a written document by which a 'right' is created by one person in favour of other person. Thus, negotiable instrument means "a document transferable by delivery".

The Negotiable Instruments Act has not defined the term negotiable instrument. It only names three Negotiable Instruments in Sec. 13. These are:

- Cheques
- Promissory Notes (PN)
- Bills of Exchange (BE)

Payable to either order or bearer.

A negotiable instrument may be made payable to two or more payees jointly, or it may be made payable in the alternative to any one of two, or one or- some of several payees. These instruments are in a way substitutes for cash. In other words they are almost equivalent to cash. They play crucial role in settlement of dues of one person to another.

The legislation that governs these instruments in India is known as "The Negotiable Instruments Act.", which was passed in 1881. The Act came into existence mainly to facilitate trade and commerce activities by giving legal recognition to these instruments.

In the absence of these instruments, the trading and business community would have had to handle huge amounts of currency notes, which would be highly risky and inconvenient affairs.

An important feature of Negotiable Instruments is that they are independent or 'Stand-alone' instruments – which means while settling disputes, other supporting documents or evidence are not required as these instruments are self-sufficient in this respect.

B. Features of a Negotiable Instrument:

a. **Instrument in writing:** An NI is an instrument in writing which is duly signed by the 'maker' of a PN and the drawer in the case of a BE or cheque to make it completely valid and enforceable.

b. **Unconditional order/promise:** A BE and a Cheque are issued by the "Drawer' and contain an unconditional order, directing the Drawee to pay a certain sum of money. Example: If somebody writes to another person: "Pay Mr. X Rs. 1,000 if you earn profit in bourse. Such writing does not make it an BE because it does not contain an unconditional order to pay

c. **A cheque is always drawn on a specified banker, whereas a BE may be drawn on anybody who has to pay.** A cheque is always payable on demand.

d. **The promise or acceptance to pay is for payment of money and money only.** Example: "On Demand, I promise to pay you 2 Kgs of rice" is not a PN.

e. **Certainty of the amount:** The amount of the instrument must be certain or ascertainable correctly in monetary terms.

   Example: "On Demand I Promise to pay you the sum of Rs. 10,000 with interest thereon at 10% per annum from today till the date of payment" is a valid PN since the interest amount can be calculated with the help of the data given in the promise.

f. **Payable to order or bearer:** An NI must be payable either to order or to bearer. Example: If a cheque is drawn showing the Payee's name as Mr. Mansukh, then it may be paid to Mansukh or to his order (i.e. to any other person as per his order).

g. **Payee must be a certain person:** The person named as the payee may be an individual or an association, or a cooperative or a company. There can even be joint payees. Example: A cheque is drawn as: "Pay to A and B". In this case, both A and B have to give a joint discharge on the back of the cheque or to receive the amount from the bank. Alternatively both of them have to open a 'joint' account in a bank and entrust the bank with the responsibility to collect the amount of the cheque and credit the same to their account

h. **Delivery of the instrument:** According to Section 45: The making, acceptance or endorsement of a PN, BE or cheque is completed by delivery, actual or constructive. As between parties standing in immediate relation, delivery to be effectual must be made by the party making, accepting or indorsing the instrument, or by a person authorized by him in that behalf.

A PN, BE or cheque payable to bearer is negotiable by the delivery thereof. A promissory note, bill of exchange or cheque payable to order is negotiable by the holder by endorsement and delivery thereof. It means that in case of an order instrument, endorsement is necessary.

Section 47: Negotiations by delivery: Subject to the provisions of section 58, a promissory note, bill of exchange or cheque payable to bearer is negotiable by delivery thereof. No endorsement is necessary.

Stamping of promissory notes and bill of exchange is necessary where applicable as per the Stamp Act.

i. **Currency note:** A currency note is a PN payable to bearer on demand. Section 21 of Reserve Bank of India Act prohibits drawing of this type of promissory notes i.e. payable to bearer on demand by anyone other than the Reserve Bank of India.

j. **Transferability:** Easily transferable from one person to another. A NI is a document is transferable by the application of the law. The instrument is transferable till maturity and in case of cheques till it becomes stale (on the expiry of 3 months from the date of its issue).

k. **It confers absolute and good title on the transferee.** It protects the person who receives it bona-fide and for value, i.e. he possesses good title thereto, even if the transferor has no title or had defective title to the instrument.

l. The transferee of a negotiable instrument is known as holder in due course.' His title or right is not affected by any defect in the title of the transferor or of any of the previous holders of the instrument. This is the main distinction between a negotiable instrument and other instruments.

m. The holder of an NI acquires the right to sue upon the instruments in his own name.

1.2. Types of Negotiable Instruments

Negotiable Instruments (NIs) can be classified from different angles or view points, as under:

A. **'Bearer' Instruments and Order instruments:**

An NI is said to be ‘payable to bearer’ if:

- It is expressed to be so payable, or
- The only or last endorsement on the instrument is an endorsement in blank.

In case of a bearer instrument, the bearer may claim the money without having his name mentioned on the cheque. If a NI is lost or destroyed, then its ‘holder’ is the one who is entitled to receive the amount of the NI, at the time of such loss or destruction.

A NI is said to be payable to order if

- It is expressed to be so payable; or
- It is expressed to be payable to a particular person, and does not contain any words prohibiting transfer or indicating an intention that it shall not be transferable

B. Inland Instruments (Section 11 of the NI Act) and Foreign Instruments:

An NI drawn or made in India, and made payable, or drawn upon any person, resident in India is called an ‘Inland instrument’. An inland PN is a PN which is made payable in India.

An instrument which is not an inland instrument is a foreign instrument. Therefore an instrument is ‘foreign’ instrument if:

- It is drawn outside India and made payable outside or inside India; or
- It is drawn in India and made payable outside India and drawn on a person resident outside India.

C. ‘Demand’ Instruments (Section 19 of NI Act) and Time (usance) instruments:

A PN or BE, in which no time for payment is specified, and a cheque, are payable on demand. A PN and BE may be payable on demand or after a time period but a cheque is always payable on demand. Usually such instruments contain the words “Pay At Sight…..” or “Pay on Demand…..” The drawee has to pay the amount of the instrument as soon as the demand is made on him.

A ‘Time’ instrument is one which is payable after sometime. Usual trade practice is after 30, 60, 90 or 120 days. There are variations in the manner in which the ‘time’ is stipulated e.g.:

- “Pay 30 days after sight of this instrument…..”

- “Pay 30 days after date of this instrument……”
- “Pay 30 days after the date of acceptance of BE.

D. Other Types of Instruments:

Ambiguous Instruments (Section 17 of NI Act);

If an instrument is drawn in such a way that the holder may treat it as a PN or a BE, then it is said to be an ambiguous instrument. Once a holder treats an instrument either as a bill or as a note, it cannot be treated differently afterwards.

Inchoate or Incomplete Instrument (Section 20 of NI Act):

An inchoate stamped instrument is a paper signed and stamped in accordance with the law relating to negotiable instruments and either wholly blank or containing an incomplete negotiable instrument. When one person gives to another such a document, the latter is prima facie entitled to complete the document and make it into a proper negotiable instrument up to the value mentioned in the instrument, or up to the value covered by the stamp affixed on it. The person signing the instrument is liable on it to any holder in due course.

Example: Anil signs his name on a blank stamped paper and gives it to Anush, asking him to complete the form as a Promissory Note for Rs. 1,000. Anush takes advantage of the situation and fills the amount as Rs. 10,000, which is the maximum allowable amount for the stamp paid on the instrument. Anush then passes on the PN to one Ankit, who accepts the PN in good faith and for valid consideration. Ankit can recover the whole amount of Rs. 10,000 on the instrument even though Anil intended the instrument only for Rs. 1,000.

Quasi Negotiable Instruments:

In India, Govt. Promissory notes, Hundis, Railway Receipts, Bill of Lading etc. have been held negotiable by usage or custom. Since these instruments have the characteristics of Negotiable Instruments, these are said to belong to the category of ‘Quasi Negotiable Instruments’.

Cheques:

Section 6 of the Act defines cheque:

A "cheque" is a bill of exchange drawn on a specified banker and not expressed to be payable otherwise than on demand and it includes the electronic image of a truncated cheque and a cheque in the electronic form.

A cheque is an instrument that contains an order to the bank to pay a certain sum of money from a bank account. The person writing the cheque is called the drawer. He has a bank account (often called a current or savings account) where his/her money is held. The drawer writes the various details including the amount, date, and the name of a payee on the cheque, and signs it, ordering his/her bank, known as the Drawee bank, to pay the stated amount of money to the payee.

A cheque is a negotiable instrument instructing a banking institution to the bank to pay a specific amount of a specific currency from a specified account held in the drawer's name with that institution. Both the drawer and payee may be natural persons or legal entities. Cheques are either order instruments or bearer instruments.

a. Essential Features of a cheque:

Since a cheque is a “Bill of Exchange” drawn on a specified banker and payable on demand, it is easy to recall its features. They are:

- It is an instrument in writing, signed by the maker who is the account holder
- It contains an unconditional order to the drawee bank to pay
- The order is to pay money and money only
- The amount of the cheque has to be certain
- It is payable to ‘order’ of a payee or to the ‘bearer’ of the instrument
- The payee must be a certain person
- The cheque may be transferred by the holder to person ‘endorsement and delivery’ in the case of an ‘order’ instrument and by mere delivery in the case of a ‘bearer’ instrument.
- It confers absolute and good title on the transferee.
- The holder of a cheque acquires the right to sue upon the instrument in his own name.

Parties to a Cheque:

- Drawer: He is the person who draws the cheque, i.e., the account holder in the bank.
- Drawee: It is the drawer’s banker on whom the cheque has been drawn.
- Payee: He is the person who is entitled to receive the payment of the cheque.

b. MICR Band of the Cheque:

Before the system of MICR was started in India in 1984, the cheques running in thousands (and in lakhs in cities like Mumbai) had to be sorted out manually for presenting to the respective drawee banks in the Clearing House. That was causing delay in clearing the

cheques and also there were mistakes in sorting. MICR cheque was the answer to these problems. MICR stands for Magnetic Ink character Recognition.

In the cheque specimen shown above, there is a white colour band (MICR band) at the bottom of the cheque with some characters printed in a diferent style. These characters are printed before the issue of the cheque to the customer. These characters are printed in a special ink which contains Iron Oxide which helps the 'Sorting Machines' (which are basically a type of computers) to 'read' the characters and sort them as per the city and bank for quick presentation of the cheques to the drawee banks without mistakes. But before presentation of the cheques in the Clearing House, the amount of the cheques have also to be 'encoded' at the right hand bottom of the MICR white band through machines called 'Encoders'. The Encoders and the Sorters are capable of arriving at the total number of instruments encoded/sorted bankwise and so the earlier system of arriving at the totals manually have also been dispensed with .

Understanding the MICR Code:

At the bottom of the MICR cheque there is a white band with numbers printed which indicate as follows (example given):

First number is 578647 which is the serial number of the cheque issued to the drawer.

Next nine numbers are 560229027 is the MICR code which identifies the Bank

First 3-digits (560) are the MICR City code. It is the PIN code of the city. In this case, it is Tiruvananthapuram in Kerala State. e.g. Kolkata banks will have 700, New Delhi 110, Mumbai 400, Chennai 600, Bengaluru 560 and Hyderabad 500 etc.)

Next 3 digits (229) are the Bank code for ICICI Bank given by RBI. e.g. 001 – RBI, 002-SBI, ICICI -229 & so on in any city in India

Next 3 digits (027) are the MICR Branch code of ICICI Bank in the city of Bangalore.
So the cheque which is shown above pertains to Branch No. 027 of ICICI Bank Ltd in the city of Bangalore

001016 - The third set of six digit numbers is a recent addition.

Next 2 digits field are known as transaction code. 9,10, 11 indicates that it is local cheque, 11 is used for a current account cheque, 29,30, 31 is used for cheques payable at par, 13 is used for for Dividend Warant etc.

At the end, the amount of the cheque is encoded by the Payee Bank on receipt in “Paisa” before sending the cheque for clearing to clearing house.

c. Types of cheques: Cheques are classified as follows from different purposes:

i. Bearer and Order Cheque: When the words "or bearer" appear on the face of the cheque after the name of the payee, the cheque is called a bearer cheque. The bearer cheque is payable to the person specified therein (i.e. the payee) or to anyone else who presents it to the bank for payment. Such cheque is risky; because if it is lost, the finder of the cheque can collect payment from the bank.

Order Cheque: When the word "bearer" appearing on the face of a cheque is cancelled or the word "or order" is written on the face of the cheque, the cheque is called an order cheque. Such a cheque is payable to the person specified therein as the payee, or to any one else to whom it is endorsed (transferred).

ii. Crossed Cheque / Uncrossed Cheque:

Crossed Cheque: Crossing on a cheque means drawing two parallel lines on the face of the cheque with or without additional words like "& CO." or "Account Payee" or "Not Negotiable". A crossed cheque cannot be encased at the cash counter of the drawee bank but it can only be credited to the payee's account.

Uncrossed / Open Cheque: When a cheque is not ‘crossed’, it is known as an "Open Cheque" or an "Uncrossed Cheque". The payment of such a cheque can be obtained at the counter of the bank. An open cheque may be a bearer cheque or an order one.

iii. Post Dated or Stale Cheque:

Post-Dated Cheque: If a cheque bears a date which is yet to come (future date) then it is known as post-dated cheque. A post-dated cheque cannot be honoured earlier than the date on the cheque. For example, a cheque is written on the 14th of the July 2015 month but dated the 28th of the July 2015 will not be encashed till 28 July 2015.

Stale Cheque: If a cheque is presented for payment after three months from the date written on the cheque, it is called stale cheque. A stale cheque is not honoured by the bank.

Anti-Dated Cheque: If a cheque bears a date earlier than the date on which it is presented to the bank, it is called as "anti-dated cheque". Such a cheque is valid up to three months from the date of the cheque.

d. Meaning of cheques in Electronic form and truncated cheques:

Till recently before the introduction of the 'Truncation' System (CTS), cheques were printed on paper and issued and were in circulation till they were ultimately paid. After the introduction of the CTS, the NI Act had to be amended to include the CTS cheques also in the definition of the cheque and hence the phrase "……..and it includes the electronic image of a truncated cheque and a cheque in the electronic form." has been added to the original definition of cheques.

Cheque Truncation System (CTS): is an online image based cheque clearing system where images and MICR data is captured at the collecting bank branch and transmitted electronically. A cheque in the electronic form means a cheque which contains the exact mirror image of a paper cheque, and is generated, written and signed in a secure system ensuring the maximum safety standards with the use of digital signature (with or without biometric signature) and asymmetric crypto system.

A truncated cheque means a cheque which is 'truncated' during the course of the clearing cycle, either by the clearing house or by the bank whether paying or receiving payment, immediately on generation of an electronic image for transmission, substituting the further physical movement of the cheque in writing.

In the erstwhile physical clearing of cheques, the cheque used to be sent for clearing to RBI clearing house. With the implementation of the Cheque Truncation system (CTS), the image of the cheque is sent to the RBI clearing house.

i. Branch address with IFSC code printed on top of the cheque
ii. Date in dd/mm/yyyy format with boxes
iii. Printers name with CTS-2010 in left side of cheque
iv. A pantograph which shows VOID/COPY while taking photocopy of the cheque below the account number
v. New rupee symbol instead of bilingual format
vi. "Please sign above" is mentioned on bottom right of the cheque

Watermark "CTS INDIA" to be visible cheque is held against any light.
Ultra Violet logo of Bank printed at upper left corner of cheque to be visible in UV lamps

Endorsement:

A negotiable instrument may be transferred by negotiation.

i. Negotiation can be effected by mere delivery if the instrument is a bearer one.
ii. By endorsement and delivery in case it is an order instrument.

CHEQUE BOOK

On the opening of a saving and current account, a banker hands over to the customer (account holder). The following there for operating the account:

a) Cheque Book
b) Pay-in-Slip Book
c) Pass Book

A cheque Book contains sequentially number cheques forms than the account holder can use for withdrawing money from his account. The number of cheque forms may be 10, 25, 50 or 106 as per the account holder's requirement, the name of the account holder is printed as the right hand bottom side of the cheque form.

Apart from the cheque forms the Cheque also contains two other slips:

(a) Requisition Slip

Requisition Slip is used by the account holder when a new cheque book is to be acquired from the bank, after all the cheque forms have been used. In contains a request to the bank to issue to him a new cheque book containing the required number of cheque forms. The account holder mentions the date, account number, his current address, mobile number. E-mail address and desired number of cheque forms and submits to the banker, Banks now a day's send the cheque book to the account holder by post only for safety reasons.

(b) Record Slip

Every cheque look contains either in the beginning or at the end, two or three slips, which are meant for the purpose of keeping record of the cheques issued by the Account holder. Specimen of such slip, which is cashed record slips is as follow:

Record Slip A/c No_______________

Cheque Number	Date	In favour of	Cheque Amount	Deposit	Balance

Earlier, such record was kept separately for each cheque on the counter fail of each cheque. Now Record slips are in use. The Account holder can thus keep track of the balance in his account, if he incorporates in the slip, the amount of deposits made by him.

(c) Multicity Cheques

These cheques are normal cheques, but contain the following sentences also:

"MULTI CITY CHEQUE. Payable as per as all Branches of the Bank."

Such cheques can be encashed as any branch as any branch of the bank concern without incurring any cost by way of commission.

But there is an upper lume on the amount which can be withdrawn through such cheque. Such cheque need not be sent to the clearing House by any branch of the same bank.

An order instrument means instrument payable to a specified person or to the order of that specified person. If an instrument payable to order is transferred without endorsement, it is merely assigned and the holder thereof is not entitled to the rights of a holder in due course.

Meaning of Endorsement:

An endorsement is the mode of negotiating a negotiable instrument. A negotiable instrument payable otherwise than to a bearer can be negotiated only by endorsement and delivery. According to sec. 15 of the NI Act "when the maker or holder of a negotiable instrument signs the same, otherwise than as such marker for the purpose of negotiation on the back or face thereof or on a slip of paper annexed thereto, he is said to endorse the same and is called the endorser. The person to whom the instrument is endorsed is called the endorsee.

"The word endorsement is said to have been derived from Latin 'en' means 'upon' and 'dorsum' meaning 'the back'. Thus usually the endorsement is on the back of the instrument though it may be even on the face of it. Where no space is left on the instrument, the endorsement may be made on a slip of paper attached to it. This attached slip of paper is called 'Allonge'.

Essentials of a Valid Endorsement:

An endorsement, in order to operate as mode of negotiation must comply with the following conditions, namely:

1. It must be written on the instrument itself and be signed by the endorser. The simple signature of the endorser, without additional words, is sufficient. An endorsement written on an allonge is deemed to be written on the instrument itself.
2. The endorsement must be of the entire instrument. A partial endorsement, that is to say, an endorsement, which purports to transfer to the endorsee only a part of the amount payable, or which purports to transfer the instrument to two or more endorsees separately, does not annexed to negotiation of the instrument.
3. Where a negotiable instrument is payable to the order of two or more payees or endorsees who are not partners, all must endorse unless then has authority to endorse for the others.

4. Wherein a negotiable instrument payable to order, the payee or endorsee is wrongly designated or his name is misspelt, he should sign the instrument in the same manner as given in the instrument. Though, he may add, if he thinks fit, his proper signature also.

5. Where there are two or more endorsements on an instrument, each endorsement is deemed to have been made in the order in which it appears on the instrument, until contrary is provided.

Types of Endorsement:

According to the N.I. Act, 1881 endorsement may take any of the following forms:

1. Endorsement in blank or general endorsement.
2. Endorsement in full or special endorsement.
3. Restrictive endorsement.
4. Partial endorsement.
5. Conditional endorsement.

i. **Endorsement in Blank or General Endorsement:** In case of an endorsement in blank, the payee or endorser does not specify the name of an endorsee and he simply signs his name (S. 16 NIA).

ii. **Endorsement in Full or Special Endorsement:** When the payee or endorser specifies the person to whom or to whose order the instrument is to be paid, the endorsement is called special endorsement or endorsement in full. The specified person i.e. the endorsee then becomes the payee of the instrument.

iii. **Restrictive Endorsement:** An endorsement is restrictive when it prohibits further negotiation of a negotiable instrument. Sec. 50 of the NI Act 1881states. “The endorsement may, by express words, restrict on exclude the right to negotiate further or constitutes the endorsee an agent to endorse the instrument or to receive its contents for the endorser or for some other specified person.”

   For example, if B endorses an instrument payable to bearer as follows, the right of C to further negotiate is excluded

   - Pay the contents to C only

- Pay C for my use

iv. **Partial Endorsement:** If only a part of the amount of the instrument is endorsed, it is a case of partial endorsement. An endorsement which purports to transfer to the endorsee only a part of the amount payable, or which purports to transfer the instrument to two or more endorsees severally, is not valid.

v. **Conditional Endorsement:** If the endorser of a negotiable instrument, by express words in the endorsement, makes his liability or the right of the endorsee to receive the amount due thereon, dependent on the happening of a specified event, although such event may never happen, such endorsement is called a conditional endorsement (Section 52 of NI Act). Such an endorser gets the following rights:

He may make his liability on the instrument conditional on the happening of a particular event. He will not be liable to the subsequent holder if the specified event does not take place.

For example, "pay C if he returns from London". Thus C gets the right to receive payment only on the happening of a particular event, i.e. if he returns from London.

Effect of Endorsement

An unconditional endorsement of a negotiable instrument followed by its delivery has the effect of transferring the property therein to the endorsee. The endorsee acquires a right to negotiate the instrument further to anyone he likes.

Section 50 of NI Act also permits that an instrument may also be endorsed so as to constitute the endorsee an agent of the endorser.

- To endorse the instrument further or
- To receive its amount for the endorser or for some other specified person.

Bills of Exchange:

Section 5 of the Negotiable Instrument to Act define a BE as follows:

A "bill of exchange" is an instrument in writing, containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money only to, or to the order of, a certain person or to the bearer of the instrument.

An order to pay is not "conditional", by reason of the time for payment of the amount or any instalment thereof being expressed to be on, the lapse of a certain period after the occurrence of a specified event which, according to the ordinary expectation of mankind, is certain to happen, although the time of its happening may be uncertain.
A specimen of a bill of exchange is given below:

BILL OF EXCHANGE

Stamp

Rahul Chaudhari,
105, Ghodbunder Road,
Thane,
Date: 15 th December, 2013

Rs. 10,000/-

Sixty days after date, pay to Sonal Chaudhari, M.G.Road, Dhule or her order, the sum of Rupees Ten Thousand Only for the value received.

Sd/-
(Mr. Rahul Chaudhari)

To,
Prakash Patil,
207, Ganga Road,
Nashik.

Accepted
Sd/-
(Prakash Patil)
Date: 18th December, 2013

Features of Bill of Exchange (BE):

- It should be in writing
- It should contain a direction or order by the drawer to the 'drawee' to pay money;
- The order should be unconditional.
- The order should be signed by the person who gives the order. He is called the 'Drawer' of the BE. It should be signed in the proper capacity, i.e. as an individual, or as a partner of a firm, or as the Manager, Secretary, Managing Director etc. of a Company, Managing Trustee of Trust etc.
- The drawer, the drawee, and the payee should be clearly identifiable with certainty.
- The drawer and the payee may be one and the same person. So in a BE, there should be at least 2 distinct persons, the drawer and the drawee
- A bill contains an order to pay a definite amount of money either on sight of the bill or after a specified time. In the former case, the bill is payable on demand. In the latter case, it is payable after a specified period of time, say 30, 60 or 90 days. Such bills are called Usance Bills. They need acceptance by the drawee.
- The bill has to be 'delivered' to the payee to make it an effective BE.
- The BE confers absolute and good title on the transferee.
- The holder of a BE acquires the right to sue upon the instrument in his own name.

Promissory Note

Section 4 of the NI Act defines a PN as follows:

A "promissory note" is an instrument in writing (not being a bank- note or a currency- note) containing an <u>unconditional undertaking,</u> signed by the maker, to pay a certain sum of money only to, or to the order of, a certain person, or to the bearer of the instrument.

Illustrations: A signs an instrument in the following terms:

a. "I promise to pay B or order Rs. 500."

b. "I acknowledge the debt I owe to 'B' in Rs. 1, 000 to be paid on demand, for value received"

The above two examples are PNs as they are unconditional promise to pay.

c. Mr. B, I O U Rs. 1, 000"

d. I promise to pay B Rs. 500 and whatever other dues I owe him"

e. I promise to pay B Rs. 500, after adjusting his dues to me"

f. "I promise to pay B Rs. 500 10 days after my return from Delhi"

g. "I promise to pay B Rs. 500 on D's death, provided D gives me Rs. 500 in his will"

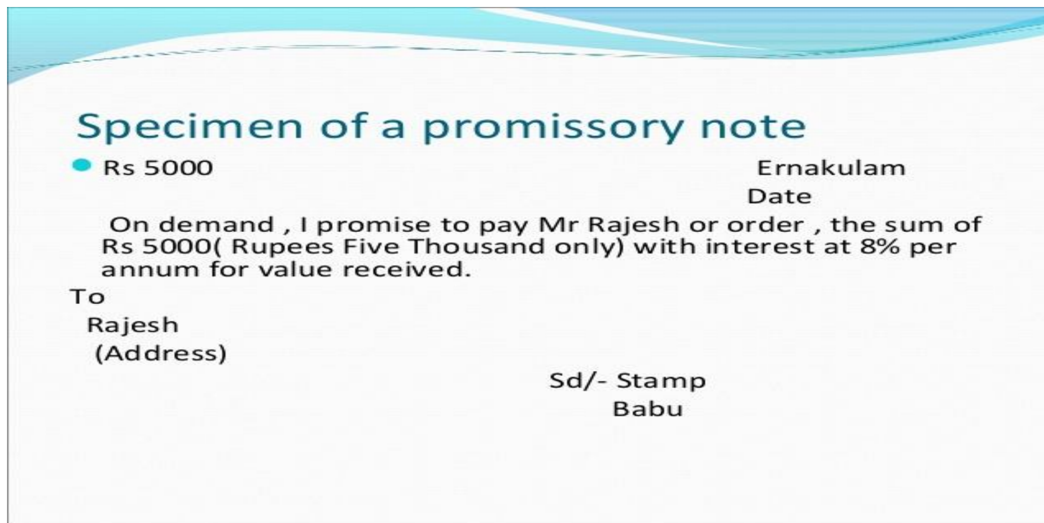
h. "I promise to pay B Rs. 500 and to deliver to him my old scooter next year"

The instruments respectively marked (c); (d), (e), (f), (g) and (h) are not Promissory Notes since they contain 'conditional' promise to pay.

Parties to a Promissory Note:

- Maker: He is the person who promises to pay the amount stated in the note. He is the debtor.
- Payee: He is the person to whom the amount is payable i.e. the creditor.
- Holder: He is the payee or the person to whom the note might have been endorsed. The endorser and endorsee on the same person as in the case of a bill of exchange.

Specimen of Promissory Note:



Essential Elements of Promissory Notes are:

a. The instrument must be in writing.

b. The instrument must be signed by its maker. A signature in pencil or by a rubber stamp of facsimile is good. An illiterate person may use a mark or cross instead of writing out his name. The signature or mark may be placed anywhere on the instrument, not necessarily at the bottom. It may be at the top or at the back of the instrument.

c. The instrument must contain a promise to pay. The promise to pay must be express. It cannot be implied or inferred. A mere acknowledgement of indebtedness is not enough.

d. The promise to pay must be unconditional. If the promise to pay is coupled with a condition it is not a promissory note.

e. The maker of the instrument must be certain and definite.

f. A Promissory note must be stamped according to the Indian Stamp Act.

g. The sum of money to be paid must be certain.

h. The amount must be payable in the legal tender currency of India. A promise to pay certain quantity of goods or a certain amount of foreign money is not a promissory note.

i. The money must be payable to a definite person or to his order. A note is valid even if the payee is misnamed or is indicated by his official designation only. Evidence is admissible to show who the payee really is.

j. The promissory note may be payable on demand or after a certain definite period of time.

k. The Reserve Bank of India Act prohibits the creation of a promissory note payable on demand to the bearer of the note, except by the Reserve Bank and the Government of India.

The following are the differences between a PN and a BE,

PN	BE
It contains a promise to pay	It contains a order to pay
Primary liability to pay is of the maker of the PN	Primary liability to pay is on the Drawee. If the drawee fails, the liability will be that of the drawer

A PN has to be presented for payment only (not for acceptance since the PN is itself issued by the person who has to pay)	A 'demand' BE has to be presented for payment. A 'Usance' BE has to be presented first for acceptance and after acceptance it has to be presented to the acceptor for payment on or before the due date
Initially there are two parties –the maker (promissor) and the payee (promisee). Maker and payee have to be different persons.	Initially there are three parties – the maker who is the drawer, the Drawee who is ordered to pay and the payee who has to get the money. The drawer and the payee may be the same person.
PN is drawn in a single copy.	NI Act provides that a foreign Bill of exchange to be drawn in sets. (One of them being satisfied, the other is automatically nullified).
PN cannot be drawn conditionally	BE also cannot be drawn conditionally, but the acceptor/endorser can make it conditional by restricting.
If a PN is dishonoured, notice of dishonour need not be given.	If a BE is dishonoured, the holder has to give notice of dishonour to all his prior parties against whom he desires to take action.

1.3. Parties to a Bill of Exchange:

Drawer: The maker of a bill of exchange is called the 'drawer'.

Drawee: The person directed to pay the money by the drawer is called the 'Drawee'.

Payee: The person named in the instrument, to whom or to whose order the money is to be paid by the drawee is called the 'payee'. He is the real beneficiary under the instrument. Where he signs his name and makes the instrument payable to some other person, that other person also becomes the payee.

Endorser: When the holder or the payee endorses the instrument to anyone else, the transferor becomes the 'endorser'.

Endorsee: The person to whom the bill is endorsed is called an ‘endorsee’.

Acceptor: After the drawee of a bill a signs his assent upon the bill, or if there are more parts than one, upon one of such parts and delivered the same, or given notice of such signing to the holder or to some person on his behalf, he is called the ‘ acceptor’.

Holder: A person who is legally entitled to the possession of the negotiable instrument in his own name and to receive the amount thereof, is called a ‘holder’. He is either the original payee, or the endorsee. In case the bill is payable to the bearer, the person in possession of the negotiable instrument is called the ‘holder’.

Drawee in case of need: When in the bill or in any endorsement, the name of any person is given, in addition to that of the drawee, to be resorted to in case of need, such a person is called ‘drawee in case of need’.

In such a case it is obligatory on the part of the holder to present the bill to such a drawee in case the original drawee refuses to accept the bill. The bill is taken to be dishonoured by non-acceptance or for non-payment, only when such a drawee refuses to accept or pay the bill.

Acceptor for honour: In case the original drawee refuses to accept the bill or to furnish better security when demanded by the notary, any person who is not liable on the bill, may accept it with the consent of the holder, for the honour of any party liable on the bill. Such an acceptor is called ‘acceptor for honour’.

1.4. Crossing of Cheques

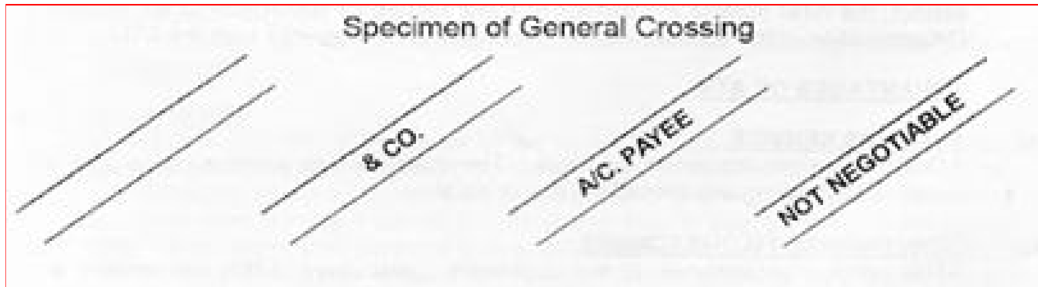
A. Meaning of Crossing the Cheque:

A crossed cheque is a cheque that has been marked to specify an instruction about the way it is to be paid. A common instruction is to specify that it must be deposited directly into an account with a bank and not encashed by a bank over the counter. But generally two parallel lines and/or the words 'Account Payee' or similar may be placed either vertically across the cheque or in the top left hand corner. By using crossed cheques, cheque writers can effectively protect the cheques they write from being stolen and cashed

A cheque that is not crossed is an open Cheque. A cheque may be crossed by its drawer or payee or the collecting banks.

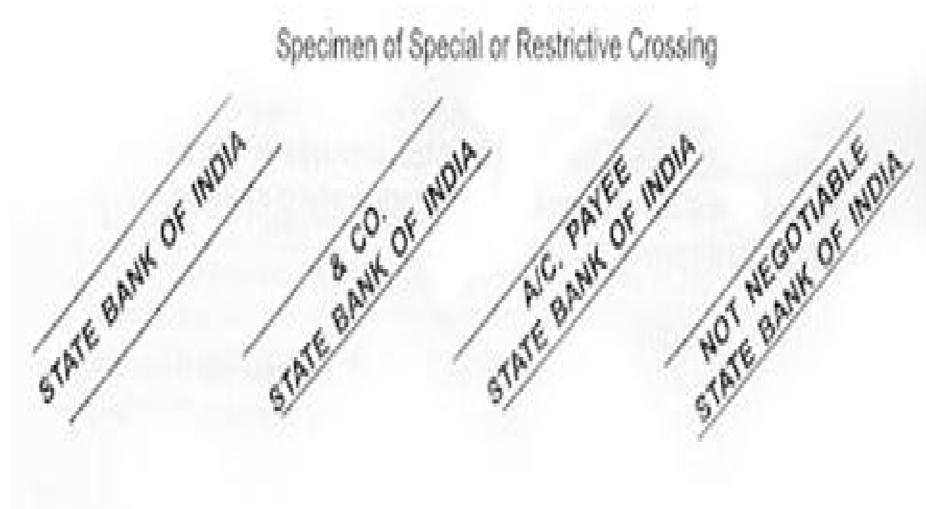
B. Types of Crossing done on a cheque:

a. **General Crossing:** For general crossing two transverse lines on the face of cheque are essential. The paying banker shall pay the amount of the cheque only to a banker.



- ➢ The cheque may bear across its face the words “& co.” or the words “not negotiable”. In addition to the two transverse lines
- ➢ The cheque bears a short form "& Co. “between the two parallel lines
- ➢ The cheque bears the words "A/c. Payee” between the two parallel lines.
- ➢ The cheque bears the words "Not Negotiable" between the two parallel lines.

b. **Special or Restrictive Crossing of Cheques:** When a particular bank's name is written in between the two parallel lines or without parallel lines the cheque is said to be specially crossed. The cheque may be in favour of Account Payee or Company.



In addition to the word bank, the words "A/c. Payee Only", "Not Negotiable" may also be written. Payment of such cheque is not made unless the bank named in the crossing is presenting the cheque. The effect of special crossing is that the bank makes payment

only to the banker whose name is written in the crossing. Specially crossed cheques are safer than generally crossed cheques.

Uses of Crossing of Cheque:

The usefulness of a crossing lies in the fact that a crossed cheque cannot be paid at the counter of the paying bank but can be collected only through a bank. Crossing provides protection and safeguard to the owner of the cheque, as by securing payment through a banker it can be easily detected to whose use the money is received. Where the cheque is crossed, the paying banker shall not pay it except to a banker. In case of 'not negotiable' crossing, the person holding such a cheque gets no better title than that of his transferer and cannot pass on a better title to his own transferee. In case of 'account payee only' crossing, a direction is given to the collecting banker to collect cheque and to place the amount to the credit of the payee only.

1.5. Summary:

- A Negotiable instrument means
  - A promissory note,
  - Bill of exchange or
  - Cheque

  Payable either to order or bearer.
- Negotiable instruments can be
  - Payable to Order
  - Payable to Bearer
  - Payable to Joint payees
- Negotiable instruments are regulated by the Negotiable Instruments Act, 1881.
- Features of Negotiable instrument are:
  - Instrument in writing
  - Unconditional order / promise
  - A cheque is drawn on a specific banker
  - The promise or acceptance to pay is for payment of money and money only
  - Certainty of the sum
  - Payable to order or bearer:
  - Payee must be a certain person

- Delivery of the instrument
- Currency note
- Transferability
- Confers absolute and good title on the transferee

- Quasi Negotiable Instruments: Instruments having the characteristics of NI, viz.
  - Govt. Promissory Notes
  - Hundis
  - Railway Receipts
  - Bill of Lading etc.

- Different types of Negotiable instruments which are available:
  - Bearer instruments
  - Order instruments
  - Inland instruments
  - Foreign instruments
  - Demand instruments
  - Time or Usance instruments
  - Ambiguous instruments
  - Inchoate or Incomplete Instrument

- Cheque is a bill of exchange drawn on a specified banker and not expressed to be payable otherwise than on demand and it includes the electronic image of a truncated cheque and a cheque in the electronic form.

- Different types of cheques are available such as Bearer, Order, Crossed, Uncrossed, anti-dated, post dated, stale etc.

- Cheque Truncation System (CTS): is an online image based cheque clearing system where images and MICR data is captured at the collecting bank branch and transmitted electronically

- Bill of Exchange is an instrument in writing, containing an unconditional order signed by the maker directing a certain person to pay a certain sum of money only to or to the order of a certain person or to the bearer of the instrument.

- Promissory note is an instrument in writing containing an unconditional undertaking signed by the maker to pay a certain sum of money only to or to the order of a certain person or to the bearer of the instrument.
- Parties to bill of exchange are Drawer, Drawee, Acceptor, Payee, Endorser, and Endorsee & Holder.
- Parties to a Promissory Note are Maker, Payee & Holder
- Parties to a Cheque are Drawer, Drawee & Payee
- There are type of crossing of cheques – General and Special.
- Crossing provides a protection and safeguard to the owner of the cheque as by securing payment through a banker as it can be easily detected to whose use the money is received.
- Crossing of cheque can be general crossing and special crossing
- A cheque can be crossed by the holder, drawer and the Banker

Keywords:

NI – Negotiable Instruments

PN – Promissory Notes

BE – Bill of Exchange

1.6. Self Test Questions

I. Choose the correct option:

1. 'Mr. Ram, I owe you a sum of Rs 1000/'- is
   a) Promissory Note
   b) Acknowledgement of debt
   c) Conditional Promise
   d) None of these

2. "We have received a sum of Rs 15000/- from Sri Vikash Prasad Verma. The above amount will be repaid on demand. We have received Rs 15000/- in cash today is
   a) Promissory Note
   b) Acknowledgement of debt
   c) Neither a nor b
   d) Both a & b

3. A cheque becomes stale after expiry of how many months from the date of the cheque?
   a) 3 months
   b) 6 months
   c) 9 months
   d) 12 months

4. A negotiable instrument can be negotiated
   a) By mere delivery if payable to bearer
   b) By endorsement and delivery if payable to order
   c) Both a and b are true
   d) Neither A Nor B is true

5. A Quasi Negotiable Instrument is
   a) an instrument printed in the form of an NI
   b) has some characteristics of an NI
   c) none of them
   d) may be any of them

6. A truncated cheque is
   a) a cheque cut into 2 pieces
   b) a cheque in a trunk
   c) scan of the physical cheque
   d) none of them

7. Bill of Exchange is defined in Sec ______ of NI Act
   a) Sec 4
   b) Sec 5
   c) Sec 6
   d) Sec 8

8. A promissory note is defined in Sec ______ of NI Act
   a) Sec 4
   b) Sec 5
   c) Sec 6
   d) Sec 8

9. Crossing of the cheque can be cancelled by
   a) Drawer only along with his initial
   b) Drawer only along with his full signature
   c) Payee of the cheque
   d) Holder in due course

10. The person who is directed to pay in a Bill of exchange or Cheque is known as __
    a) Drawer
    b) Drawee
    c) Holder
    d) Payee

Answers: 1 – b, 2 – b, 3- a, 4 – a, 5- b, 6 – c, 7 – 5, 8 – c, 9-b, 10 – 2

II. Fill in the blanks:

1. General crossing of a cheque requires parallel transverse lines simply, either with or without the words ______
2. In a BE, the number of parties are ____
3. In India, the reasonable time for presentation to the bank in the case of cheques and drafts is …..months from date of issue
4. Inchoate negotiable instruments means ____
5. Maker of a Bill of exchange or cheque is known as ______.
6. Negotiable Instrument Act came into existence in _________.
7. Promissory note is defined in Sec ______ of NI Act
8. Full form of CTS is ____ ____ ____
9. Negotiable instruments can be payable to _____, ____, ____.
10. Cheque which is not crossed is a ____ cheque.

Answers: 1- Account Payee, 2 – 2, 3 – 3, 4- Incomplete instrument, 5 – Drawer, 6 – 1881, 7 – 4, 8 – Cheque Truncation System, 9 – Order, Bearer, Joint payees, 10 - open

III. Answer in detail:

1. What is a negotiable instrument?
2. Defines what is cheque?
3. What is Special crossing?
4. What is Bill of Exchange?
5. What is Promissory note?
6. Compare the characteristics of Bills of Exchange and Promissory note?
7. What are the advantages of crossing of cheque?
8. Explain the various special crossing of the cheque?

IV. Activities:

1. Prepare a chart showing the different negotiable instrument & their characteristics?
2. Explain the class, the different ways a cheque can be crossed and it implications?
3. Do roles play on the parties involved in Bills of Exchange?

Learning Objective – Unit 2

<table>
<tr><td>Location</td><td colspan="4">DURATION- 20 HOURS</td></tr>
<tr><td></td><td colspan="4">SESSION-1 TYPES OF ADVANCES-SECURED AND UNSECURED</td></tr>
<tr><td></td><td>Learning Outcome</td><td>Knowledge Evaluation</td><td>Performance Evaluation</td><td>Teaching and Training Method</td></tr>
<tr><td></td><td>Introduction to Lending of funds, Principle of sound Lending ,Types of Advances
• Secured
• Unsecured</td><td>1. Meaning of Lending of funds
2. Clarity on Principles of Lending
• Liquidity
• Safety
• Profitability
• Purpose
• Diversification of Risk
3. Classification of Advances
• Secured –meaning with Example
• Unsecured- meaning with example</td><td>1. Discuss the Secured and Unsecured advances of bank
2. Identify the principles of lending
3. Elucidate the importance of lending
4. Distinguish between secured and unsecured loans</td><td>Interactive lecture – Explanation on the principles of lending with importance of secured and Unsecured loans
Activity – List out the various assets which can be used as security against loan.</td></tr>
<tr><td></td><td colspan="4">SESSION -2 LOANS(SHORT TERM AND LONG TERM)</td></tr>
<tr><td></td><td>Evaluating the key role of Loan system of banks.</td><td>1. Classification of various methods of granting advances
2. Concept of Loan system with its advantages and disadvantages
3. Specification of types of loan system
• Short Term
• Long term

4. Describe short term and long term loans with suitable examples.</td><td>1. Discuss in detail the concept of Loan system
2. Explain the various types of loans with example
3. Enumerate the draw backs and advantages of loan system.
4. Distinguish between long term and short term loans.</td><td>Interactive Lecture- Discussion on Loan System facility provided by banks
Activity - Visit a bank and meet manager asking about the types of loans granted by them to their regular customers and rate of interest charged on various types of loans.</td></tr>
<tr><td></td><td colspan="4">SESSION-3 METHODS OF GRANTING ADVANCES</td></tr>
<tr><td></td><td colspan="4">A. CASH CREDIT</td></tr>
<tr><td></td><td>Understanding the concept of Cash Credit</td><td>1. Identify the various Advantage and Disadvantage of Cash Credit to a</td><td>1. Explain the key features of Cash Credit
2. Describe the</td><td>Interactive lecture
Identification of Cash Credit</td></tr>
</table>

		borrower 2. Suitability of cash credit in present scenario	advantages and disadvantages	as one of the method of granting loan **Activity** –Visit 3 banks and list out how these banks fix cash credit limits.
	B. OVERDRAFT			
	Overview of Overdraft as a method of granting advances.	1. Core Concept of Overdraft 2. Features of Overdraft 3. Suitable examples to explain this system of Advances	1. Describe in detail the role of Overdraft as advancing loan. 2. Enumerate the features of Overdraft 3. In which cases Overdraft facility not granted	**Interactive lecture** – On the concepts of Overdraft **Activity** – Visit a bank and prepare a report on how to take Overdraft facility and how do banks and fix overdraft limits
	C. BILL DISCOUNTED AND PURCHASED			
	Understanding the concept Bill Discounted and Purchased	1. Fundamentals of Bill Discounted and Purchased 2. Importance of Bill Discounted and Purchased 3. Comparative view of all types of advances.	1. Detail Overview on the concept of Bill Discounted and Purchased 2. Explain its advantages to bank 3. How is Bill Discounted and Purchased different from other credit facilities given by bank (in form of chart)	**Interactive lecture-**On the concept of Bill Discounted and Purchased **Activity** Group discussion on the merits and demerits of various credit facilities of bank.

UNIT 2

LENDING FUNCTIONS OF THE BANK

OBJECTIVES

After reading this unit you will be able to:

- Describe the Principles of Lending of funds by Banks
- Understand the difference between Secured and Unsecured loan
- Explain what are cash credit and overdraft and their differences?
- Understand what is Bills Discounting and Purchase and their uses for short term funding

STRUCTURE

2.1. Types of Advances- Secured & Unsecured

2.2. Loans: Short, Medium and Long Term

2.3. Methods of Granting Advances

- 2.3.1. Cash Credit
- 2.3.2. Overdraft
- 2.3.3. Bills Discounting and Purchase

2.4. Summary

2.5. Practice Questions

A Bank is a financial institution / financial intermediary that accepts deposits and channels those deposits into lending activities. It is done either directly by lending to the needy borrowers or indirectly by investing is the capital markets instruments. Thus a bank intermediates between customers who have surpluses of funds and customers who need funds.

Nowadays, banks offer many more services apart from their basic business explained above. For a bank, the Deposits are Liabilities, and the Loans & Advances are Assets. Banks provide both fund based and non fund based loans facilities.

'Fund based facilities are those facilities where a bank releases money / funds to the borrowers. 'Non fund based' facilities are those facilities where Bank does not release money but the gives a guarantee or makes a promise or undertaking (Letter of Credit) on behalf of the customer (Applicant) in favour of third parties (Beneficiaries).

A. **Principles of Sound Lending:** The important principles that banks must follow while lending are as follows:

   a. **Safety:** "Safety first" is the cardinal principle of sound lending. When a bank lends, it must ensure that the advance is safe; i.e. the money will definitely be returned back. For example, if a borrower invests in an unproductive or speculative venture, or if the borrower himself is dishonest, the advance would be in jeopardy. Credit worthiness of the borrower can be checked through various mechanisms such as credit ratings, CIBIL records,

   b. **Liquidity:** It is also necessary that the money lent by banks must come back on demand or according to pre-agreed terms of repayment. The borrower must be in a position to repay within a reasonable time after a demand for repayment is made. This is more likely if the money is employed by the borrower for short-term requirements and not locked up in assets or schemes which take a long time to repay. The source of repayment must also be definite. Even if the bank lends for longer periods, it must verify the end use of the funds lend, and the feasibility and viability of the borrower's project to ensure his ability to repay the funds within the stipulated time in the stipulated manner.

   c. **Purpose:** Banks must closely scrutinize the purpose for which the money is required, and ensure that the money borrowed for a particular purpose is applied by the borrower accordingly. The purpose of the borrower should be productive so that the money not

only remains safe but is repaid also. Banks usually discourage advances for hoarding stocks or for speculative or anti-social activities.

d. **Profitability:** Equally important is the principle of ‘profitability’. Banks have to pay interest on the deposits received by them. They have to incur expenses on maintaining their establishments. They have to make provision for depreciation and also for possible bad or doubtful debts. Therefore a reasonable profit must be made by the bank to remain a going concern. Otherwise, it will not be possible to transfer any funds to the reserve or to pay dividend to the shareholders. It is after considering all these factors a bank decides its lending interest rate.

e. **Security:** It has been the practice of banks not to lend as far as possible except against security. Security is considered as a cushion to fall back upon in case of an emergency. Even when the bank lends for purposes of new projects or expansionary endeavors of corporates, they secure the funds by way of a charge on the assets to be created the borrower company.

f. **Diversification:** Another important principle of good lending is the diversification of advances. It is important to spread the risks involved in lending over a large number of borrowers, a large number of industries and areas, and secured against different types of securities.

g. **Suitability:** Even when an advance satisfies all the previous principles, it may still not be a suitable one. The advance may run counter to national interest or against existing government regulations, etc. It may also be against the banks’ policy / motto. For example, NABARD lends more towards rural projects. It may not be suitable to the banks’ area of operation to lend to say, a power project. Such things need to be considered along with the other principles of lending.

There are 5 basic principles for lending known as the 5 C’s. They are:

- **Character:** The borrower’s willingness to repay, his honesty and integrity;
- **Capacity:** Ability to successfully run the business and repay the borrowed amount out of the profits of his business;
- **Capital:** How much own money he has put in the business and how much he has saved from his earnings so far. It is called the net worth;

- **Collateral:** The security offered to the bank as cover for the advance, so that if the borrower does not pay the dues, the bank can recover it by selling the security; the security should have stable value and should be easily marketable;
- **Conditions:** The changes that are constantly occurring in the economy which may affect the borrower's business.

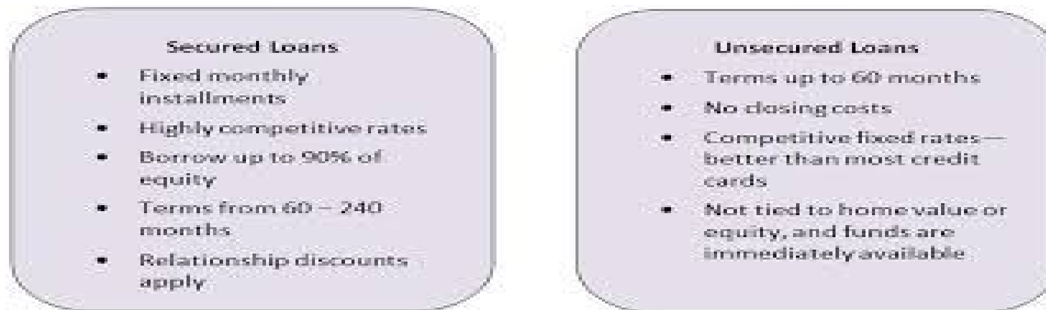
The other points to be considered by the banker are:

- Whether the loan to the borrower will be profitable to the bank?
- Whether the loan is as per the bank's policies and is useful to the borrower?
- Whether the venture of the borrower is economically, technologically, and financially viable?
- Whether the borrower has adequate managerial competence to run the business?

2.1. Types of Advances- Secured & Unsecured

In case of lending, money is provided on the condition that the amount borrowed will be returned, along with interest at a future date.

Secured and Unsecured loans:



a. **Secured Bank loans:** It is in the interest of a bank to recover all the loans with the interest thereon at the due dates. To ensure this, the banks try to obtain security (whose value is greater than the loan amount) from the potential borrowers as backing for the prompt recovery of the loans.

Such security may be in the form of a house / residential flat / any landed property like factory land, or Plant and Machinery, Life Insurance policies with surrender values, Gold ornaments, Fixed Deposit receipts investors' receivable vehicles like car / two wheelers/ Buses / Truck etc.

In the event the borrower fails to repay the loan with interest, the bank will be able to liquidate the security (after giving sufficient notice to the borrower) and appropriate the proceeds towards the repayment in dues of the borrower. If the sale proceeds of the securities exceed the dues of the borrower, the excess amount is refunded the borrower.

b. Unsecured Bank loans: Unsecured bank loans, as the name itself suggests, are loans granted by a bank without the backing of any physical securities either primary or collateral. These loans are given to those borrowers who do not have any securities acceptable to the bank and who are considered creditworthy for the amount of loan.

An unsecured loan is more risky for a bank – if the borrower fails to pay the dues, the bank has no security to fall back upon for recovering its dues. So a bank grants unsecured loans only to persons of very good credit rating, with good track record, and a steady income sufficient enough to repay the loan. The potential borrower's existing loans also is an important point to consider.

An overdraft limit may be given either as a secured or unsecured advance depending upon the borrower's credit worthiness, purpose and size. Advances limits against bills receivable are considered secured because documents of title of goods are generally with such bills.

RBI defines unsecured exposure as an exposure (both funded and non-funded) where the realizable value of the security, as assessed by the Bank, is not more than of the outstanding exposure (All types of exposures including underwriting commitments are included) of the value of security is less than the exposure such loan are called partly secured loans.

Security means only tangible security such as:

- Land and buildings
- Plant and machinery
- Raw materials
- Work-in-process
- Finished Goods,
- Fixed Deposits,
- Life Insurance Policies etc.

These are "properly charged" to the Bank and will not include intangible securities like guarantees, comfort letter, etc. Every bank has to take care to see that its exposure to unsecured loans and advances does not exceed the limit fixed by the RBI / its own Board of Directors.

Methods of Creating charge on securities

A change over the assets of the borrower any be created by any of the methods

(a) Lied, (b) pledge (c) hypothecation (d) mortage.

B. Types of Secured Loans:

a. Loan against Gold:

The most popular type of secured loan in India is 'Gold Loan'. Apart from banks, a number of NBFCs also compete with the banks. The Banks / NBFCs employ goldsmiths as retainers to verify the gold's purity and value of the gold brought by their clients.

RBI had imposed a loan-to-value cap of 60 per cent for the gold loan companies, though it was not made mandatory for banks. Typically, most public sector banks maintain a loan to value ratio of 70 per cent, while it is higher for some private-sector lenders. Loan to Value means the amount of loan that can be granted against the value of the asset (in this case gold).

If the borrower fails to repay the loan in time, the Bank / NBFC can always sell the gold / jewellery in auction and recover the loan out of the sale proceeds. Generally the interest rate ranges between 12% – 15%.

b. Loan against Insurance Policies:

LIC's (Life Insurance Corporation of India) Insurance policies are well known as very useful savings instruments for protection of one's family's financial welfare. In times of need, the policy holders can avail loans against their policies that have acquired 'Surrender Values' (SV). The policies acquire SVs after premium are paid up at least for 3 years. LIC sanctions loans up to a certain percent (generally up to 90%) of the SVs. Banks also have standard procedures and guidelines for sanctioning loans against insurance policies. The lender gets the LIC policy 'assigned' to itself by the policy holder as security, so that in case the loan is not repaid, the lender can always 'surrender' the policy and close the loan account from the proceeds from the surrendered policy..

c. Loan against Bank Fixed Deposits:

Depositors deposit their savings in banks in different types of Deposits accounts depending upon their cash flow needs in future. However, due to some unexpected expenses which the depositors have to meet, they may think of encashing their term deposits before maturity.

A term deposit is a contract between the depositor and the bank for keeping the deposit in the bank for a predetermined term earning them interest at predetermined rates. Premature encashment of a term deposit results in breaking the contract which results in reduction of interest rate on the deposit. Depending upon the timing of such need for cash, it may sometimes be advantageous for the depositor to avail loan against the deposit, rather than encashing it prematurely. (The interest to be paid on the loan may be less than the loss of interest due to premature encashment alternative).

Normally banks grant loans on the term deposits up to 75 to 95 % of the amount of the deposits, charging interest at 1 to 2% more than what they pay on such deposits. As contracts with minors are void, loans cannot be granted to minors. However, if a depositor is a minor, loans on such deposits can be granted to the natural guardian / guardian provided the natural guardian / guardian gives a declaration that the loan amount is being

utilized for the benefit of the minor depositor – e.g. to meet his/her educational or medical needs etc.

d. Housing Loans

There is an acute shortage of housing in the country and every citizen dreams of owning a house (or a flat as the case may be) in his life time. The RBI also encourages banks to lend to the housing sector because of the social benefit angle, by including housing loans as one of the 'Priority Sector' advances. (As per RBI guidelines, every bank has to lend 40% of its total advances to the 'Priority Sectors'.)

Banks give housing loans for purchase of plot and build a house thereon, or to purchase an existing house / flat, or to purchase a flat that is being built now.

Any salaried employee or a self-employed person or a professional like a Doctor, Engineer, Architect, Chartered Accountant etc. with a regular income is eligible to avail a housing loan from a bank.

A person wishing to avail a housing loan should contribute 20% or more of the consideration price of the house / flat / budgeted cost of construction of the house or flat from his own savings, as banks normally lend only about 80% of the consideration price etc.

Tenor of the loans i.e. the number of years required to repay the loan can be fixed any where up to 25 years depending upon the surplus from disposable income available to the borrow for repayment of the loan. However it should be borne in mind that the longer the period, higher will be the total amount of interest that the borrower has to pay.

Interest chargeable on the loan may at:

- 'Fixed' rate basis (the interest rate will remain the same during the entire duration of the loan) or
- 'Floating' rate basis (interest rate will be periodically reset as a predetermined margin over a pre-agreed index like the bank's Base Rate (BR) or the RBI's Repo rate or MIBOR (Mumbai Inter-Bank Offered Rate) or 1 year Treasury bill's yield rate etc.

Currently the rate of interest ranges from 8.5% to 13%.In addition to the interest charged on the housing loan, the borrower may have to pay a 'processing fees' of about 0.5% to 1%

of the loan amount. Nowadays, most of the banks have waived processing fees on account of the acute competition among them to grant housing loan to credit worthy borrowers.

e. Loans against other securities:

Shares and Units in Mutual Funds: Banks offer loans against shares and units of Mutual Funds. However as the values of these securities are volatile in nature, banks stipulate around 50 % margins to be maintained, the banks have a list of 'approved' shares and Mutual Funds units which are eligible for the loan facility. The borrower has to pledge the shares to the bank while taking the loan.

f. Vehicle Loans:

Vehicle loans are very popular products among the banks as the car makers compete with one another to woo the prospective buyers with a number of attractive schemes. Banks finance the purchase of a new or a used four wheeler - car, van, bus, truck – or a three wheeler or a two wheeler. Depending upon the credit-worthiness of the borrower the bank insists on a third party guarantee. Interest is charged on actual outstanding balances at monthly intervals, at rate ranging from 9.5% to 14%. Processing Fees is also payable by the borrower at the time of the sanction of the loan. Prepayment penalty will be levied by the banks (rate varies from bank to bank). The total period permitted to the borrower to repay the entire loan, i.e. tenor of the loan ranges from 36 months to 84 months depending upon the cost of the vehicle. Quantum of loans is usually not more than 90% of the 'on the road' value of new vehicles and 50% of the value of the used vehicles as assessed by the bank's empanelled automobile valuers.

g. Loans for Exports and Imports:

Banks grants credit to exports at both (i) pre- shipment and (ii) post-shipment stages.

Export Finance: Due to the importance attached to this sector by the Government of India, RBI has given detailed guidelines to all the banks in India to give special attention to exporters' needs for finance. An exporter can avail Pre-shipment and Post-shipment finance from banks in Rupees or denominated in foreign currencies, as per choice exercised by the exporter.

- Pre-shipment finance is given to an exporter who gets an export order, to procure the raw material, manufacture or procure the finished product suitable for exports, and ship the goods.
- Post-shipment finance is given to the exporter after he has shipped the goods, till the export proceeds are realized. Though availment of Pre-shipment finance is not necessary to avail Post-shipment finance, it is convenient for an exporter to avail Pre-shipment finance on receipt of an export order, ship the goods and then switch over to Post-shipment finance till realization. The proceeds of the post-shipment finance enable the experts to clear the dues under pre-shipment finance. Post-shipment is granted generally by way of discounting/purchase of export bill of exchange drawn by exports on their customers.

Import Finance: Importers also may require finance for importing raw materials which are used in their exports. Letters of Credits (LCs) are opened by bnaks on behalf of the importers in favour of the foreign suppliers. On receipt of the import documents, the import bills are paid by the bank. On receipt of the import documents, the banks pay the bill amounts by arranging term loans in the name of the importers. The machineries are used by the importers and from the income generated, pay back the term loans with interest.

C. Types of Unsecured Loans:

a. Personal Loans:

These are generally unsecured loans and are given only to the credit worthy customers well known to the bank, having adequate cash flows to repay such loans. There are a number of miscellaneous expenditures that a house holder has to meet – viz.

- Children's educational fees,
- Occasional medical expenses,
- Some family function,
- Going on holiday,
- Minor repairs or home renovations
- Purchase of consumer durables like fridges, air conditioners, washing machines etc.

Personal loan come very handy for the borrower to meet such expenditures. Since these loans are unsecured, banks insist on a co-borrower or a guarantor to join the borrower.

b. Credit Cards Loan:

A credit card is a plastic card containing the name of the card holder and the details of the 'credit limit' sanctioned to him. The card holder can use the card for

- Purchases of goods / articles / services on credit in person or
- Through internet or draw cash (as loan) through Automated Teller Machines (ATMs) – up to the credit limit sanctioned to him.

The card issuing bank sends the bills to the cardholder at the end of the billing period (e.g. 11th of a month to the 10th of the next month) allowing him a grace period of 15 days to pay the bill amount to the bank (in this example, by 25th of the month). If the card holder fails to pay the dues by the due date, the bank will charge interest on the dues. Till he clears the entire dues, the card holder will not be entitled to any grace period in respect of the any further dues. The 'credit limit' given to the card holder is a revolving one.

The full terms and conditions (T & C) of the use of the card is given to the cardholder at the time of the issue of the card. The rate of interest charged by different card issuing banks may be different (may range anywhere from 18% to 48%). Similarly, the incentives for the card holders for using the cards more often may also be different from bank to bank. Since the issue of a card is sanction of a loan limit, the bank will take the usual precautions before issuing the card (like assessing the creditworthiness of the card holder). The card holder should only use the card as a mechanism to match his payment due dates to his cash flows.

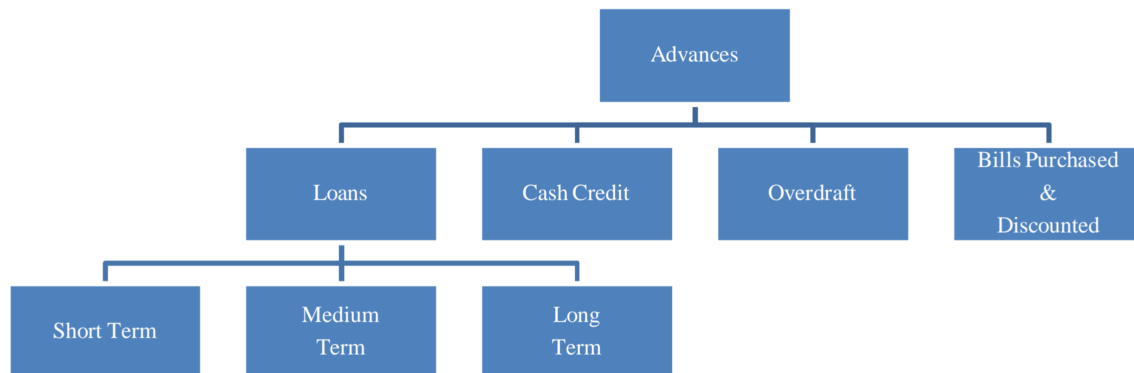
Cards issued by the bank are of different grades. Starting from the simplest card with low limits for spending, Silver, Gold Platinum and Titanium cards are issued by banks depending upon the gradation of the customers' creditworthiness and spending habits.

Nowadays all cards are issued for use in foreign countries also and these cards are called 'International' cards. The turnover in the Cards held by Individuals is generally small. Theoretically a credit card can be used for purchases up to the limits. Since the purchases of Corporate will be for huge amounts, the Card Issuing Banks rope in Corporate as customers with an eye on the turnover, on which the quantum of fees depend. With a single account for debiting, many 'Corporate Cards' can be issued to a single company for the use of their Executives for their travel etc. and 'Corporate Commercial Cards' are issued for the purchases made by the Corporate for their day to day operations. Based on the creditworthiness of the Corporate, the credit limits are fixed.

Two well-known Card Issuing Associations are VISA and MASTERCARD, as the cards carrying their logo have universal acceptance. Card issuing banks become members of these Associations. So the names of the Card Issuing banks appear on the cards along with the logos of VISA / MASTERCARD. These cards can be used in any establishments anywhere in the world displaying the logo of these two Associations.

2.2. Loans: Short, Medium and Long Term

Banks grants advances in the following forms:



Bank loans are the easiest source of availing finance. A bank loan is an extension of credit by a bank to a customer or business house; it has to be paid along with interest.

Features of Bank Loans: Bank loans have the following characteristics:

- A bank loan may be either secured or unsecured depending upon the circumstances.
- The interest charged by the bank on such a loan may be either at the fixed rate or at variable rate.
- If mortgage loan is to be obtained, the borrower has to pay a number of fees such as title searching fees, application fees, inspection fees, etc.

Advantages of Bank Loans: Bank loans offer the following advantages:

- The loan can be easily procured.
- The loan can be used for short-term as well as medium-term financing.
- Interest paid on a bank loan is tax deductible expenditure of a business entity.

Disadvantages of Bank Loans: The disadvantages of bank loans are:

- Some bank loans carry prepayment penalty.

- Borrowing too much from bank can lead to increase in interest burden and hence decreased cash flow.
- In most cases, the bank does not disburse the whole amount of loan applied for; it often grants loans cash lower than the loan asked for.

Classification of the Loans based on repayment period is as follows:

- Loans for period up to 1 years are called Short Term loans
- If the loan period is more than 1 years but less than 5 years then they are called Medium Term loans
- In a loan period is more than 5 years then they are called Long Term loans.

Corporates require short term loans for Working Capital needs and Long Term Loans for Long Term investments in Plant and Machinery, Land and Buildings, Projects etc. Small and Medium Enterprises (SMEs) are also included in the Corporate Sector

Short Term Loans for Corporates:

- The short term facilities are repayable within a year
- Working capital loans are dishonoured as Pre-shipment and Post-shipment loans, Cash Credit (Overdraft) accounts, bill discounting limits
- Non-funded facilities like Letters of Credits and Bank Guarantees etc.

Long Term Loans for Corporates:

- Repayable over a period of 5 to 7 years
- Required for meeting the capital expenditures for investing in Land and buildings, plant and machinery, and in new projects
- Repayment structures depend on the projected future cash flows of the corporate borrowers
- Foreign Currency Loans are also granted for the above purpose.

Banks also, as permitted by the RBI, extend foreign currency loans (External Commercial Borrowings-ECBs) to their corporate clients. The ECBs can be utilized by the Corporates for Working Capital needs or importing Plant and machinery etc.

A. Short term loans:

Short term loans are designed for shorter repaying duration. Short term loans are to be repaid quickly and may be provided for any purpose including educational expenses, home improvements, auto repairs, clearing smaller debts etc.

a. Advantages of short term loans:

- Short term loans do not usually require collateral
- Short term loans are granted in several days or even written hours
- Short term loans require little paperwork
- Short term loans provide money when one feels a sudden unexpected need
- With short term the borrower does not burden himself with long term obligations

b. Disadvantages of short term loans:

- Short term loans are usually more expensive. As short term loans are not secured by collateral the lender changes higher interest rates to cover the risk they bear.
- The lender of short term loans is likely to investigate the credit history of the borrower and it will be offered only when it is found satisfactory.
- Short term loans are granted for a smaller amount

B. Term Loan

a. Features of Term Loans:

Term loan is a part of debt financing obtained from banks and financial institutions. The basic features of a term loan are discussed below:

i. **Security:** Term loans are secured loans. Assets which are financed through term loans serve as primary security and the other assets of the company serve as collateral security.

ii. **Obligation:** Interest payment and repayment of principal on term loans is obligatory on the part of the borrower. Whether the firm is earning a profit or not, term loans are generally repayable over a period of 5 to 10 years in installments.

iii. **Interest:** Term loans carry a fixed rate of interest which is negotiated between the borrower and lender at the time of dispersing the loan.

iv. **Restrictive Covenants:** Besides asset security, the lender of the term loans imposes other restric-tive covenants also e.g. Lenders ask the borrowers to maintain a minimum asset base, not to raise additional loans or not to repay existing loans, etc.

v. **Convertibility:** Term loans may be converted into equity at the option and according to the terms and conditions laid down by the financial institutions.

b. **Advantages of Term Loans:** Term loans are one of the important sources of project financing. The advantages of term loans are as follows:

i. **From Point of View of the Borrower:**

Cheap: It is a cheaper source of medium-term financing.

Tax Benefit: Interest payable on term loan is tax deductible expenditure and thus taxation benefit is available on interest.

Flexible: Term loans are negotiable loans between the borrowers and lenders. So terms and condi-tions of such type of loans are not rigid and this provides some sort of flexibility.

Control: Since term loans represent debt financing, the interest of the equity shareholders are not diluted.

ii. **From Point of View of the Lender:**

Secured: Term loans are provided by banks and other financial institutions against security Thus term loans are secured loans.

Regular Income: It is obligatory on the part of the borrower to pay the interest and repayment of principal irrespective of its financial position—hence the lender has a regular and steady income.

Conversion: Financial institutions may insist on convertion of the term loans into equity. Therefore, they can get the right to control the affairs of the company.

c. **Disadvantages of Term Loans:** Term loans have several disadvantages which are discussed below:

i. **From Point of View of the Borrower:**

Obligation: Yearly interest payment and repayment of principal is obligatory on the part of bor-rower. Failure to meet these payments raises a question on the liquidity position of the borrower and its existence will be at stake.

Risk: Like any other form of debt financing term loans also increase the financial risk of the com-pany. Debt financing is beneficial only if the internal rate of return of the concern is greater than its cost of capital; otherwise it adversely affects the benefit of shareholders.

Interference: In addition to collateral security, restrictive covenants are also imposed by the lenders which lead to unnecessary interference in the functioning of the concern.

ii. **From Point of View of the Lender:**

Negotiability: Terms and conditions of term loans are negotiable between borrower and lenders and thus it sometimes can affect the interest of lenders.

Control: Like other sources of debt financing, the lenders of term loans do not have any right to control the affairs of the company.

2.3. Methods of Granting Advances

A. Cash Credit

Overdraft and cash credit are widely used external sources of finance for availing short term borrowing at some cost. Both cash credit and overdraft are used by businesses to manage short term working capital requirements. However, they differ on various aspects which include nature of account, charges and fees, amount, purpose, type of security, use of funds, interest rate etc.

Both these facilities are repayable on demand and therefore classified as sources of finance payable on demand or loans payable on demand. However, these facilities are rarely re-called in real-life scenario except in very rare circumstance like customer's business and financial position is going from bad to worse phase as time passes by or in case when the value of the security is found extremely low during period revaluation of the security or

during renewal of the facility. Both Overdraft and Cash Credit accounts are both open-ended facilities.

Generally the facility given to the Industrial / Business customers is known as 'Cash Credit' (CC) account in which the stock (raw material / work in process / finished goods) lying in the godown is taken as the security by the bank. In a CC account, the bank fixes a 'drawing power' for the borrower which is usually 75% to 80% of the values of stocks and book debts (minus creditors for purchase), as declared by the borrower in a prescribed format periodically. The bank conducts periodical surprise checks in the godowns of the borrower to ensure that the borrower declares the quantity and value of the stocks accurately and maintains the acceptable level of financial discipline.

a. **Features of Cash Credit:** Following are the features of cash credit:

- This loan is given to meet the working capital requirements of a company.
- It is given against a collateral security.
- Interest is charged only on the amount of loan availed by the customer and not on the amount of credit sanctioned.

b. **Advantages of Cash Credit:** The advantages of cash credit are:

- It is an important source of working capital financing.
- Cash credit can be obtained very easily and quickly.
- Interest is charged only on the utilized amount.

c. **Disadvantages of Cash Credit:** Cash credit has the following disadvantages:

- The rate of interest charged by lenders loan on cash credit is very high.
- Such loan is granted by bank on the basis of company's turnover, its financial status, value of inven-tory, etc. So it is difficult for new and financially weak companies to obtain cash credit.
- For banks, cash credit disturbs their cash planning as the cash inflow and cash outflows remain uncertain and depends upon the borrowers' convenience and needs.

B. Overdrafts

Loans are repayable within a definite agreed period. They may be repayable in periodical installments also e.g. Monthly, Quarterly, Half yearly, Annual etc. as agreed to with the bank. An overdraft facility is an open-ended facility. Normally the limit will be initially

sanctioned for a period of one year and rolled over after a review by the bank of the facility utilised by the borrower. Bank charges interest on the actual amount utilised by the borrower.

a. Features of Overdraft facility:

- **Approved credit limit:** Every overdraft facility has an approved credit limit
- **Repayable on demand at any time:** An overdraft facility is not subject to any repayment as long as the amount used is within the overdraft limit. But, it is repayable on demand by the bank at any time.
- **No minimum monthly payment:** There is no minimum monthly repayment for an overdraft facility as long as the amount you owe is within the credit limit. But, if the account goes into "excess" you need to repay the excess amount immediately. If the excess is not paid immediately, the bank can stop the overdraft facility and require you to repay the full outstanding amount within a given time. If the bank recalls your overdraft facility, your credit record will be adversely affected.
- **Joint borrowers allowed:** As a joint applicant of an overdraft facility, you and your joint applicant(s) are equally liable for the outstanding debt. You will be liable for the debt even if it was the other applicant who used the facility. The bank can choose to recover the total outstanding debt from all account holders, partial amounts from each account holder, or the total amount from any one account holder.

b. Advantages of Overdrafts:

- **Flexible –** An overdraft is there when you need it, and costs nothing (apart from possibly a small fee) when you do not. It allows you to make essential payments, and helps to maintain cash flow. You only need to borrow what you need at the time.
- **Quick –** Overdrafts are easy and quick to arrange, providing a good cash flow backup with the minimum of fuss.

c. Disadvantages of Overdrafts:

- **Cost –** Overdrafts carry interest and fees; often at much higher rates than loans. Overdrafts are not meant for long term borrowing.

- **Recall –** Unless specified in the terms and conditions, the bank can recall the entire overdraft at any time. This may happen if you fail to make other payments, or if you have broken terms and conditions;
- **Security –** Overdrafts may be secured by the assets, which put them at risk if you cannot meet repayments.
- **Difference between Cash Credit Facility and Overdraft Facility:**

	Cash Credit Facility	**Overdraft Facility**
Account requirement	One needs to usually open a separate cash credit account with a bank to avail cash credit facility.	Overdraft can be availed on the existing current account. It is like a facility of "excess withdrawal" given in current account and at times even in savings account.
Security Requirement	Company inventory and receivables are usually taken as security for allowing cash credit facility.	Overdraft facility does not necessarily require current assets as security. An overdraft facility may be extended by taking shares, other investments like FDs, insurance policies as security. At times even based on the credibility of the person, overdraft limit may be approved.
Limits Sanctioning Rationale	Limit is usually a percentage of the stocks or receivables.	Limit is usually allotted taking into consideration the assets collateralised and also on the basis of financial statements of the company.
End Use	This is generally given specifically for the purpose of the business operation (as working capital).	Overdraft Facility can be used for any purpose and not necessarily for business.
Length of Credit Period	Cash Credit is usually for a short period. That means, the limit is allowed for a period of 1 year and is	Overdraft facility is allowed for a very short duration at times (Say a month or even for a week in some cases), but can be allowed for a

	Cash Credit Facility	Overdraft Facility
	renewed every year. In some cases, renewals or review may be stipulated half yearly as well.	period of up to 1 year.
Limits Availability	The cash credit withdrawal limit keeps changing with the change in the amount of current assets kept as security. Withdrawal limit from the CC facility is called drawing power.	The amount or the overdraft limit that the customer gets remains constant since limits sanctioned is not based on current assets. However, if OD is against shares or insurance policy surrender value, the limit changes based on the underlying security value at periodic intervals.
Rate of Interest	The rate of interest charged under cash credit facility is lesser than what is usually charged under the overdraft facility.	The rate of interest charged under over draft facility is higher than what is usually charged under the cash credit facility.

The Cash Credit facility is quite useful to those businesses where cash payment like wages, transportation, cash purchases are to be made and the receivables are not realized in time.

Overdrafts are available on current accounts only. Overdraft facilities are provided at the discretion of the bank to meet short term needs. The amount that will be granted in the form of an overdraft, in most cases, depend on the history of transactions in the current account. If there is a bad credit history, it may be difficult to obtain an overdraft.

C. Purchase and Discounting of Bills:

a. Introduction: Funds for working capital required by commerce and industry are also provided by banks by Purchase/discounting of commercial bills.

When the seller sells goods on credit, he gets payment from the buyer after the credit period is over. In the meanwhile he may need funds for working capital purposes. So he draws a Bill of Exchange on the buyer which accepts and returns it to the seller. The seller may discount the bill immediately with is banker or may choose to wait till the date of

maturity. In the former case, seller gets funds minus a discount immediately from the banker. The banker receives the amount of the bill from the drawee on the date of maturity of the bill. This process of providing finance is called discounting of bills

b. Advantages of Bill Discounting:

- Easy access
- Safety of funds
- Certainty of payments
- Profitability
- Smooth liquidity
- Ideal investment
- Facility of refinancing
- Relative stability of Prices.

c. Disadvantages of Bills Discounting:

- Absence of Bill Culture
- Absence of rediscounting among banks
- Stamp duty
- Absence of secondary market
- Difficulty in ascertaining genuine trade bills
- Limited foreign trade
- Absence of acceptance services
- Attitude of banks.

d. Advantages of Bills Discounting to Banks:

- Safety of Funds: A bill of exchange bears signatures of two parties, drawer and the acceptor. If the acceptor does not honour the bill, the drawer is liable to pay the amount of the bill to the discounting banker
- Profitability: Discount is front-ended, i.e deduction from the amount of the bill at the time of discounting so the yield is higher than that on loans

Bills Purchased, in trade finance, allows a seller to obtain financing and receive immediate funds in exchange for a sales document not drawn under a letter of credit. The bank will send the sales documents to the buyer's bank on behalf of the seller.

D. Difference between Bills Discounting and Bills Purchase:

In Bill Discounting, the interest is deducted up-front while giving a loan. This is typically a case of USANCE bill where the maturity can be calculated as per the tenor. For example, if the tenor is 30 days from shipment date, then while granting a loan, the bill will be discounted up-front, by deducting the interest for 30 days.

In Bill Purchase, the loan will be given for the full value of the draft and the interest will be recovered when the actual payment comes. This is typically the case with SIGHT drafts, where fixed maturity is not known. For e.g, if the sight draft is presented for which the loan is created for 100% of the draft value. The money is received after 5 days then, days interest will be recovered for 5 days along with the principal.

Advantages of Bills Discounting and Purchase are that the seller can get the money upfront instead for payment date. This helps the seller to receive the money faster.

Base Rate:

RBI had made it mandatory for all banks to introduce Base Rate wef 1st July, 2010. The Base Rate is the minimum interest rate of a Bank below which it cannot lend, except in cases allowed by RBI. Base Rate system is applicable to all new loans and for those old loans that come up for renewal after July 2010. Existing loans based on the Basic Prime Lending Rate (BPLR) system may run till their maturity. In case existing borrowers want to switch to the new system, before expiry of the existing contracts, an option may be given to them, on mutually agreed terms

As per RBI guidelines (as in July 2012), the following categories of loans could be priced without reference to Base Rate:-

- Differential Interest Rate Advances;
- Loans to banks' own employees including retired employees;
- Loans to banks' depositors against their own deposits

RBI does not fix the base rate. It has issued broad guidelines to bank as to how they should arrive at the base rate. Thus, individual bank itself fixes its own base rate.

The calculations of the BPLR by various banks was not transparent. In case of BPLR, Banks normally used to take into consideration the factors like cost of funds, administrative costs and a margin over it. However, such parameters were neither disclosed by banks nor were same for all the banks. The Base Rate calculations include all those cost elements which can be clearly identified and are common across borrowers. The constituents of the Base Rate includes

i. the interest rate on retail deposit (deposits below Rs. 15 lakh) with one year maturity (adjusted for CASA deposits);
ii. adjustment for the negative carry in respect of CRR and SLR;
iii. unallocatable overhead cost for banks which would comprise a minimum set of overhead cost elements; and
iv. average return on net

Current Base Rate is 10 – 10.25% (15 Jan 2015)

Fixed and Floating Interest Rates:

Fixed Rate Interest: When the rate of interest applied to a loan or a deposit remains constant and unchanged from the beginning to the end of the maturity of the loan/deposit, it is called "Fixed Rate of Interest'.

Floating Rate Interest: Floating interest rate as the name implies that the rate of interest which varies with market conditions. The biggest benefit with floating rate home loans is that they are cheaper than fixed interest rates. So, if you are getting a floating interest rate of 11.5 per cent while the fixed rate loan is being offered at 14 per cent, you still save money if the floating interest rate rises by up to 2.5 percentage points. Even if the floating rate goes over the fixed rate, it will be for some period of the loan and not for the entire tenure. The interest rates may fall over a long period and, thus, the floating interest rate brings a lot of savings.

The drawback with floating interest rates is the uneven nature of monthly instalments. This makes it difficult to budget with floating interest rate home loans.

In the case of floating interest rate, the total amount of interest is not determined for the entire period of loan, at the time of borrowing, but is dependent on some underlying index, which goes on changing, i.e. 'floating' in financial terms. Underlying index used are Bank's Base rate or MIBOR rate (Mumbai Inter Bank Offered Rate). MIBOR is the rate at which banks in Mumbai offer loans to one another.

2.4. Summary:

- ‘Funded’ facilities are where Bank releases loan money / funds to the borrower.

- ‘Non- funded’ facilities is where Bank does not release money when limit is sanctioned. But the bank (Issuer / Guarantor) gives a guarantee or promise or undertaking (Letter of Credit) on behalf of the customer (Applicant) in favour of third parties (Beneficiaries).

- Principles of good lending are:
    - Safety
    - Liquidity
    - Purpose
    - Profitability
    - Security
    - Diversification
    - Suitability

- Banks also see the 5Cs of lending to ensure that the loans granted are returned to avoid non performing asset issue.
- Loan not backup by a security is called Unsecured loan and Loan backup by a security is known as Secured loan. In case of non-payment of the loan, Bank can liquidate the asset to recovery the loan amount. Hence, secured loans are less risky for the Bank.

- Types of Secured Loan:

    - Gold Loan
    - Insurance Policy
    - Term Deposits
    - Housing Loan
    - Loan against Shares / Mutual Funds
    - Public Provident Funds
    - Vehicle loan
    - Export Credit limits

- Types of Unsecured Loan:

  - Personal loan
  - Credit Card loans

- Loans can be classified on tenors as Short term, Medium loan and Long term.

- Cash credit account is secured by a charge on the stock (raw material / work in process / finished goods) lying in the godown is taken as the security by the bank.

- Overdraft facility is a credit given to an individual against his or her assets as collateral with banks.
- When the seller obtains financial accommodation from a bank or financial institution, it is known as 'Bill discounting'
- Features of Bills Discounting are Charge, Maturity & Ready Finance

Keywords:

SV – Surrender value

MIBOR -Mumbai Inter-Bank Offered Rate

PPF – Public Provident Fund

PPO – Pension Payment order

T&C – Terms and Conditions

ECB – External Commercial Borrowings

2.5. Self Test Questions

I. Choose the correct option:

1. Which loans are safer for the Banks?
   a) Secured Loan
   b) Unsecured loan
   c) None of the above
   d) Both of the above

2. Letter of credit is ___ loan
   a) Funded
   b) Unfunded
   c) None of the above
   d) Both of the above

3. In a secured loan, Bank

a) takes the security

b) may take the security

c) does not require security

4. An OD limit is sanctioned as a
   a) secured limit
   b) unsecured limit
   c) maybe one of them
   d) neither of them

5. A short term loan is a loan which repayable
   a) within 3 years
   b) within 4 years
   c) within 5 years
   d) none of them

6. In a housing loan, the rate of interest is
   a) fixed
   b) floating
   c) any one of the above
   d) none of them

7. In a loan against shares. The shares are
   a) are hypothecated to bank
   b) are pledged to bank
   c) are mortgaged to bank
   d) none of them

8. A credit card limit is a
   a) Revolving loan limit
   b) Installment loan limit
   c) both of them
   d) none of them

9. Pre shipment finance facility is provided to:

a) User
b) Importer
c) Exporter

10. Advances against shares and mutual funds is provided ____ of the market value
    a) 50 %
    b) 60%
    c) 75 %
    d) 90 %

Answers: 1 – a, 2- b, 3 – a, 4 – a, 5 – a, 6 - c, 7 -b, 8 - a, 9 – c, 10 – a.

II. Fill in the blanks:

1. In case of personal loan, ____ security is taken by the Bank
2. Non fund based facilities provided by the bank are _____ and ______
3. Cardinal Principle of good lending is _____
4. Spreading the risks across large number of borrowers, a large number of industries & areas and across different types of securities is known as ______.
5. Unsecured loans are generally given for ____ months
6. In case of falling market rate scenario, customer wants ______ interest on the loans.
7. In case of personal loans, Bank insist on ____ or ____ before granting the loan
8. Interest on Cash Credit account is ____ than Overdraft interest rate
9. In case when the loan will be created for the full value of the draft and the interest will be recovered when the actual payment comes is known Bills _____
10. In case of Bank Balance sheet, Deposits are _____

Answers: 1 – No or zero, 2- Guarantee and Letter of Credit, 3 – safety first, 4 – Diversification, 5 – 60, 6 - floating, 7 –Co borrower or guarantor, 8 -lesser, 9 – Purchase, 10 – liabilities.

III. Answer in detail:

1. What is difference between Fund based and Non fund based facilities?
2. What is security in loans?
3. What are the long term loans available to Corporate?
4. What is the difference between Cash Credit and Overdraft facility?
5. Explain the 5C's of Lending?
6. What are the advantages / disadvantages of Bills discounting?

IV. Activities:

1. Prepare a chart showing against which assets Bank will give loans?
2. Do a comparative study of one Public Sector Bank, one Private sector bank, one foreign bank and one cooperative for the Housing and Vehicle loan and present to the class?
3. Do roles play on the points the borrower has to consider before borrowing and why?
4. Discuss the difference between various types of charge created on an asset given for taking a loan?

5. Discuss the difference between various types of charge created on an asset given for taking a loan?

Learning Objective – Unit 3

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<tr><td>Evaluation of Remittances through Bank Draft as an importance service of a Bank.</td><td>1. Meaning of Bank Draft
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5. Importance of Bank Draft in today's business world</td><td>1. Evaluate the important of Bank Draft
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<tr><td colspan="4">SESSION-2 E-BANKING</td></tr>
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2. Importance of E-banking
3. Forms of E-Banking
• ECS
• RTGS
• NEFT
• Internet Banking
4. Meaning and Advantages of different forms of E-banking
5. Risks involved in E- banking</td><td>1. Discuss the importance of E-banking in today's world.
2. Comment on how the online operations have provided major thrust to banking operation?
3. Explain the meaning and operation of
• RTGS
• NEFT
• ECS
• Internet banking
4. Elucidate the risks involved in E-banking</td><td>Interactive lecture –On the basic concept of services offered by E-banking.
Activity – Visit a bank and collect information and forms for taking various E-banking facilities.</td></tr>
<tr><td colspan="4">SESSION-3 SAFE DEPOSIT LOCKERS</td></tr>
<tr><td>Understanding the facility of providing safe deposit vaults to customers.</td><td>1. Requisites in a bank for Safe Deposit Lockers
2. Procedure followed to get</td><td>1. Describe the need of Safe Deposit Locker
2. Evaluate the</td><td>Interactive lecture-On the basic concept of services offered by E-</td></tr>
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		this facility 3. Necessity of Safe Deposit Lockers 4. Person who can avail the facility	prerequisites of getting this facility 3. List the persons who can avail this facility and what should be kept in Lockers	banking **Activity** • List out the valuables which should be kept in safe custody of banks • Visit banks, find out the Locker Rent Charges of various types of lockers with different banks and present a comparativ e report

UNIT 3

UTILITY SERVICES OF A BANK

OBJECTIVES

After reading this unit you will be able to:

- Understand in detail about the demand draft issued by the bank
- Describe E Banking
- List the features of different forms of E banking and their significance.
- Explain the need for safe deposit lockers and procedure for availing lockers.

STRUCTURE

3.1.Remittance through Bank Drafts

3.2.E Banking:

3.3.Safe Deposit Lockers:

3.4.Summary

3.5.Practice Questions

3.1. Remittance through Bank Drafts

A Demand Draft is a cheque that contains an order of one branch of a bank (Drawer branch) directing another branch of the same bank (Drawee branch) to pay on demand a certain sum of money to a specified beneficiary (Payee). A Demand Draft may be crossed also with an Account payee instrument, meaning thereby that its amount may be credited to the account of the payee and it cannot be encashed over the counter by the payee.

A Demand Draft is a much safer method of payment than cheques, since in the case of cheques, an individual is the drawer and hence the cheque can be dishonored by the drawee bank due to insufficiency of funds in the drawer's account. But since in the case of a DD, the drawer is a bank, payment is certain and it cannot be dishonored.

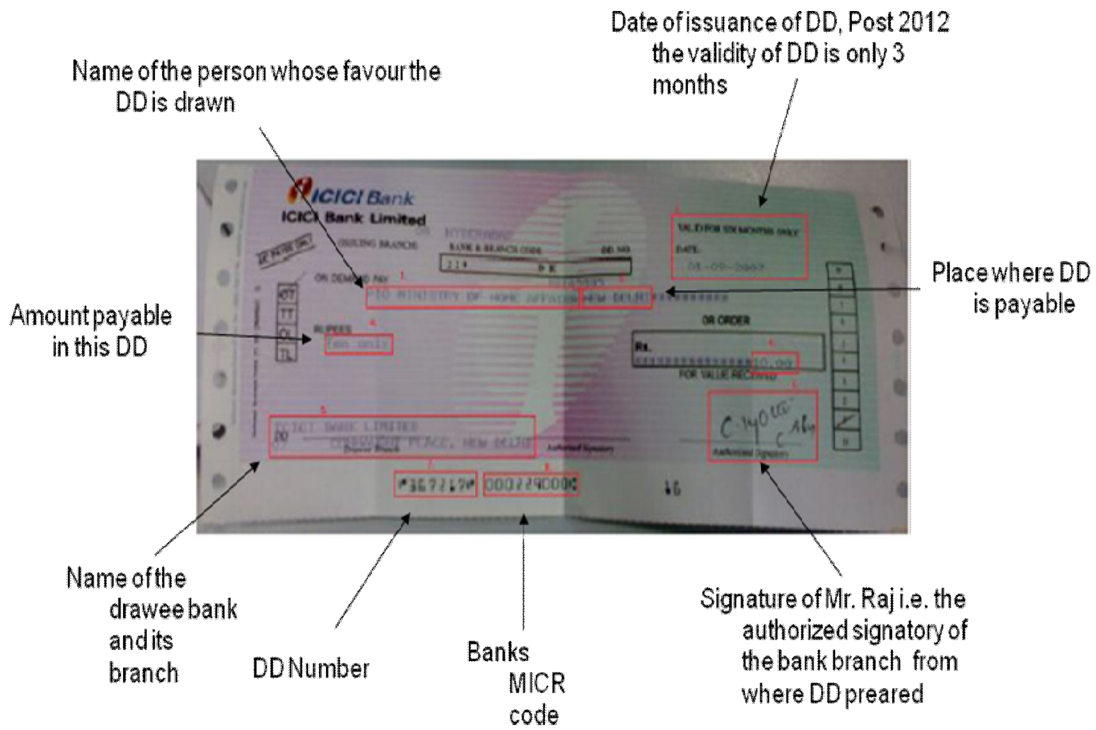
Since a draft is a cheque issued by a bank (that is, drawer is a bank) it does not carry the signatures of the customer, unlike the cheques which carry the signature of the customer (who is the drawer). Instead, a DD carries signatures of one or two bank officials, depending on the DD amount. Usually the DD will carry the name/code of both the Drawee branch and the Issuing (Drawer).

Pay Orders, also called Local DDs or Bankers' cheques, are cheques where the drawer and the drawee branch is the same. These are used for local payments (that is, payments within a city).

A. Definition of Demand Draft:

- Demand Draft is a cheque that contains an order of one branch of a bank (Drawer branch) directing another branch of the same bank (Drawee branch) to pay on demand a certain sum of money to a specified beneficiary (Payee). Thus there are three parties to a Demand draft e.g. the drawer branch, the drawee branch and the payee. Demand drafts are always payable on demand.

Specimen of Demand Draft:



Specimen of Application form for issuing Demand Draft:

STATE BANK OF MYSORE

Received from ____________

for issue of

DD on ____________ Branch

in favour of ____________

for DD

Exchange

Total

Total (in words) ____________

Cashier Manager

STATE BANK OF MYSORE

Draft Application Form

State Bank of ____________ Branch

State ____________ for ____________

in favour of

D.D. Amount

Exchange

Total

Draft No.

D.D. Prepared by ____________

Signed by

Signature & Address of the Applicant

Cashier Clerk Cash / Transfer Passed by

* PAN No. Tel./Cell No.

* Compulsory for DD's above 50,000. If PAN No. is not available Form 60/60A should be furnished (P.T.O.)

B. Demand Draft Issuance Process:

An applicant for a Demand Draft is required to fill in a DD Request Slip, mentioning the amount, payee's name, issuing branch, location the draft should be payable at, his name, signature and account number etc. In most cases, the purchaser of the draft is an account holder with the bank, hence he can authorise the bank to debit (that is, take out funds from) his account either through a Cheque or a debit mandate. The Cheque should be drawn in favor of "Yourself for the issue of DD favoring XYZ ", where XYZ refers to the payee of the DD. The banker will debit the account of the account holder and issue a DD in favour of the beneficiary. The purchaser of the Demand Draft will send it to the beneficiary who will deposit the DD in his Bank account. Beneficiary's Banker will clear the draft through the clearing process. On clearance, Beneficiary's Bank will credit the Beneficiary's account

The bank levies charges for issuing the DD, in the form of a commission. Hence the customer has to pay an amount equal to (DD amount + Commission + Service Tax).

DDs can also be issued against the payment of cash by the purchaser, but in this case, the total amount (inclusive of commission and taxes) should not exceed Rs. 49,999. PAN number of the purchaser will be necessary if the amount of DD exceeds Rs.10,000/=

Since a DD is a kind of a cheque, the principle of Cheque Clearing also applies to DDs. In the example mentioned above, if the payee, does not have an account with SBI, but with another bank, say PNB, he would deposit the Draft in its PNB branch and the PNB officials would lodge the DD in outward clearing. (The DD would be sent to the local Clearing House).

C. Advantages of Demand Draft:

- It may be crossed also i.e. "Account payee". Hence cannot be encashed at the Bank counter
- It cannot be dishonoured due to insufficiency of funds thus it ensures its payment to the payee

Due to the above advantages, it is considered as an important instrument for payments. It helps avoid duplication of efforts when cheques bounced. The payee is sure to receive the amount. If the DD is lost in transit, the payee can stop payment of the lost DD. The purchaser is not mentioned a party to DD. Hence he cannot stop its payment.

3.2. E Banking:

Electronic Payment and Settlement Systems in India:

The Reserve Bank of India is doing its best to encourage alternative methods of payments which will ensure security and efficiency to the payments system and make the whole process easier for banks. The Indian banking sector has been growing successfully, innovating and trying to adopt and implement electronic payment systems. The Indian payment systems had always been dominated by paper-based transactions. But since the introduction of e-payments in India, the banking sector has witnessed growth like never before.

In the case of India, the RBI has played a pivotal role in facilitating e-payments by making it compulsory for banks to route high value transactions through Real Time Gross Settlement (RTGS) and also by introducing NEFT (National Electronic Funds Transfer) and NECS (National Electronic Clearing Services) which have encouraged individuals and businesses to switch to electronic methods of payment. With the changing times and technology we have changed the methods of payments in India. E-payments in India have been growing at a fast speed in recent years.

E-payments have to be continuously promoted showing consumers the various routes through which they can make these payments like ATM's, the internet, mobile phones and drop boxes.

Benefits of E Banking: There are plenty of benefits perks that customers who adopt this mode of banking can derive from it. Some of the key benefits of internet banking are:

- Convenience
- Better Interest Rates
- Services
- Mobility
- Environment Friendly
- Lower operating cost
- Very low incidence of errors

Last but not the least, internet banking has helped to cut down the usage of paper, thereby being good for the environment where it helps to reduce pollution. People do not have to visit the bank. In a growing country like India, efficient and faster payments method helps in the development of economy as a whole.

Electronic Clearing Services (ECS)

ECS is an electronic mode of payment / receipt for transactions that are repetitive and periodic in nature. ECS is used by institutions for making bulk payment of amounts towards distribution of dividends, interest, salaries, pension, etc., or for bulk collection of amounts towards telephone / electricity / water dues, cess / tax collections, loan instalment repayments, periodic investments in mutual funds, insurance premium etc. Essentially, ECS facilitates transfer of monies from one bank account into many banks accounts or vice versa.

Primarily, there are two variants of ECS, ECS Credit and ECS Debit.

ECS Credit is used by an institution for giving credit to a large number of beneficiaries (for instance, employees, investors etc.) having accounts with bank branches at various locations within the jurisdiction of a ECS Centre by raising a single debit to the bank account of the user institution. ECS Credit enables payment of amounts towards distribution of dividends, interest, salaries, pension, etc., by the user institution.

ECS Debit is used by an institution for collecting amounts from a large number of accounts maintained with bank branches at various locations within the jurisdiction of an ECS Centre for credit to the bank account of the user institution. ECS Debit is useful for collection of telephone / electricity / water bills, cess / tax payments, loan installment repayments, periodic investments in mutual funds, insurance premium etc., that are periodic or repetitive in nature and payable to the user institution by large number of customers etc.

Based on the geographical location of branches covered, there are three broad categories of ECS Schemes – Local ECS, Regional ECS and National ECS.

Local ECS – this is operating at 81 centres / locations across the country. At each of these ECS centres, the branch coverage is restricted to the geographical coverage of the clearing house, generally covering one city and/or satellite towns and suburbs adjoining the city.

Regional ECS – this is operating at 9 centers / locations in various parts of the country. RECS facilitates the coverage of all core-banking-enabled branches in a State or group of States and can be used by institutions desirous of reaching beneficiaries within the State / group of States. The system takes advantage of the core banking system in banks. Accordingly, even though the inter-bank settlement takes place centrally at one location in the State, the actual customers under the Scheme may have their accounts at various bank branches across the length and breadth of the State / group of States.

National ECS – this is the centralized version of ECS Credit which was launched in October 2008. The Scheme is operated at Mumbai and facilitates the coverage of all core-banking enabled branches located anywhere in the country. This system too takes advantage of the core banking system in banks. Accordingly, even though the inter-bank settlement takes place centrally at one location at Mumbai, the actual customers under the Scheme may have their accounts at various bank branches across the length and breadth of the country. Banks are free to add any of their core-banking-enabled branches in NECS irrespective of their location.

A. ECS (CREDIT)

ONE DEBIT => MULTIPLE CREDITS

ECS Credit payments can be available of by any institution (called ECS Credit User) which needs to make multiple or repetitive payments to a number of beneficiaries. The institutional User has to first register with an ECS Centre. The User has also to obtain the consent of beneficiaries (i.e., the recipients of salary, pension, dividend, interest etc.) and get their bank account particulars prior to participation in the ECS Credit scheme.

ECS Credit payments can be put through by the ECS User only through his / her bank (known as the Sponsor bank). ECS Credits are given to the beneficiary account holders (known as destination account holders) through the beneficiary account holders' bank (known as the destination bank). The beneficiary account holders are required to give mandates to the user institutions to enable them to give credit to their bank accounts through the ECS Credit mechanism.

MICR is an acronym for Magnetic Ink Character Recognition. The MICR Code is a numeric code that uniquely identifies a bank-branch participating in the ECS Credit scheme. This is a 9 digit code to identify the location of the bank branch; the first 3 characters represent the city, the next 3 the bank and the last 3 the branch. The MICR Code allotted to a bank branch is printed on the MICR band of cheques issued by bank branches.

The beneficiary has to furnish a mandate to the user institution giving consent to avail the ECS Credit facility. The mandate contains details of his / her bank branch, account particulars and authorises the user institution to credit the amount to his / her account with the destination bank branch.

It is the responsibility of the user institution to communicate to the beneficiary the details of credit that is to be given to his / her account, indicating the proposed date of credit, amount

and related particulars of the payment. Destination banks are required to ensure that the pass books / statements given to the beneficiary account holders reflect particulars of the transaction / credit provided by the ECS user institutions. The beneficiaries can match the entries in the passbook / account statement with the advice received by them from the User Institutions. Many banks also give mobile alerts / messages to customers after credit of such funds to accounts.

If a Destination Bank is not in a position to credit the beneficiary account due to any reason, the same would be returned to the ECS Centre to enable the ECS Centre to pass on the un-credited items to the User Institution through the Sponsor Bank. The User Institution can then initiate payment through alternate modes to the beneficiary.

In case of delayed credit by the destination bank, it would be liable to pay penal interest (at the prevailing RBI LAF Repo rate plus two percent) from the due date of credit till the date of actual credit. Such penal interest should be credited to the Destination Account Holder's account even if no claim is lodged to the effect by him.

There is no limit on the amount of individual transactions. The Reserve Bank of India has deregulated the charges to be levied by sponsor banks from user institutions. The sponsor banks are, however, required to disclose the charges in a transparent manner. With effect from 1st July 2011, originating banks are required to pay a nominal charge of 25 paisa per transaction to the Clearing house and destination banks each. Destination bank branches have been directed to afford ECS Credit free of charge to the beneficiary account holders.

ECS Credit working:

The User intending to effect payments through ECS Credit has to submit details of the beneficiaries (like name, bank / branch / account number of the beneficiary, MICR code of the destination bank branch, etc.), date on which credit is to be afforded to the beneficiaries, etc., in a specified format (called the input file) through its sponsor bank to one of the ECS Centres where it is registered as a User.

The bank managing the ECS Centre then debits the account of the sponsor bank on the scheduled settlement day and credits the accounts of the destination banks, for onward credit to the accounts of the ultimate beneficiaries with the destination bank branches.

Advantages of ECS Credit:

i. **Beneficiary Benefits:**

- The beneficiary need not visit his / her bank for depositing the paper instruments which he would have otherwise received had he not opted for ECS Credit.
- The beneficiary need not be apprehensive of loss / theft of physical instruments or the likelihood of fraudulent encashment thereof.
- The beneficiary receives the funds right on the due date.

ii. **Benefits to User Institutions:**

- User institutions also enjoy many advantages. For instance, cost incurred on administrative machinery and printing, dispatch and reconciliation of paper instruments etc is saved which would have been incurred had beneficiaries not opted for ECS Credit.
- Avoid chances of loss / theft of instruments in transit, likelihood of fraudulent encashment of paper instruments, etc. and subsequent correspondence / litigation.
- It is an efficient payment system which ensures the beneficiaries get credit on a designated date.

iii. **Benefits to Banking system:** The banking system too benefits from ECS Credit Scheme such as follows:

- Freedom from paper handling and the resultant disadvantages of handling, presenting and monitoring paper instruments presented in clearing. Ease of processing and return for the destination bank branches.

- Smooth process of reconciliation for the sponsor banks.

B. ECS (DEBIT)

MULTIPLE DEBITS => ONE CREDIT

ECS Debit transaction can be initiated by any institution (called ECS Debit User) which has to receive / collect amounts on account of telephone / electricity / water dues, cess / tax collections, loan instalment repayments, periodic investments in mutual funds, insurance premium etc. It is a Scheme under which an account holder with a bank branch can authorise an ECS User to recover an amount at a prescribed frequency by raising a debit to his / her bank account.

The user institution has to first register with an ECS Centre. The User institution has to obtain the authorization (mandate) from its customers also for debiting their account along with their bank account particulars prior to participation in the ECS Debit scheme. The mandate has to be duly verified by the beneficiary's bank. A copy of the mandate should be available on record with the destination bank where the customer has a bank account.

ECS Debit Working:

The ECS Debit User intending to collect receivables through ECS Debit has to submit details of the customers (like name, bank / branch / account number of the customer, MICR code of the destination bank branch, etc.), date on which the customer's account is to be debited, etc., in a specified format (called the input file) through its sponsor bank to the ECS Centre.

The bank managing the ECS Centre then passes on the debits to the destination banks for onward debit to the customer's account with the destination bank branch and credits the sponsor bank's account for onward credit to the User institution. Destination bank branches will treat the electronic instructions received from the ECS Centre on par with the physical cheques and accordingly debit the customer accounts maintained with them. All the unsuccessful debits are returned to the sponsor bank through the ECS Centre (for onward return to the User Institution) within the specified time frame.

Advantages of ECS Debit Scheme:

i. **Customers:** The advantages of ECS Debit to customers are many which are as follows:

- ECS Debit mandates will take ensure automatic debit of the amount to customer accounts on the due dates without customers visiting bank branches / collection centers of utility service providers etc.
- Customers need not keep track of due date for payments.
- The debits to customer accounts would be monitored by the ECS Users, and the customers are alerted accordingly.

ii. **Benefits to User institutions:** User Institutions enjoy many benefits from the ECS Debit Scheme as follows:

- Savings on administrative machinery and costs of collecting the cheques from customers, presenting in clearing, monitoring their realization and reconciliation.
- Better cash management because of realization / recovery of dues on due dates promptly and efficiently.
- Avoids chances of loss / theft of instruments in transit, likelihood of fraudulent access to the paper instruments and encashment thereof.
- Realization of payments on a uniform date instead of fragmented receipts spread over many days.

iii. **Benefits to Banking system:** The banking system has many benefits from ECS Debit such as:

- Freedom from paper handling and the resultant disadvantages of handling, receiving and monitoring paper instruments presented in clearing.
- Ease of processing by the destination bank branches. Destination bank branches can debit the customers' accounts after matching the account number of the customer in their database and due verification of existence of valid mandate and its particulars. With core banking systems in place and straight-through-processing, this process can be completed with minimal manual intervention.
- Smooth process of reconciliation for the sponsor banks.

Mandate:

Any mandate in ECS Debit is on par with a cheque issued by a customer. The mandate may contain a ceiling on the maximum amount of debit; specify the purpose of debit and

validity period of the mandate. There is no value limit on the amount of individual transactions that can be collected by ECS Debit.

The customer has to maintain adequate funds in his / her account with the destination bank branch to ensure that the ECS Debit instructions are honored on due dates. In case of any need to withdraw or stop a mandate, the customer has to give prior notice to the ECS user institution well in time, so as to ensure that the input files submitted by the user do not continue to include the ECS Debit details in respect of the mandates withdrawn or stopped by the customer

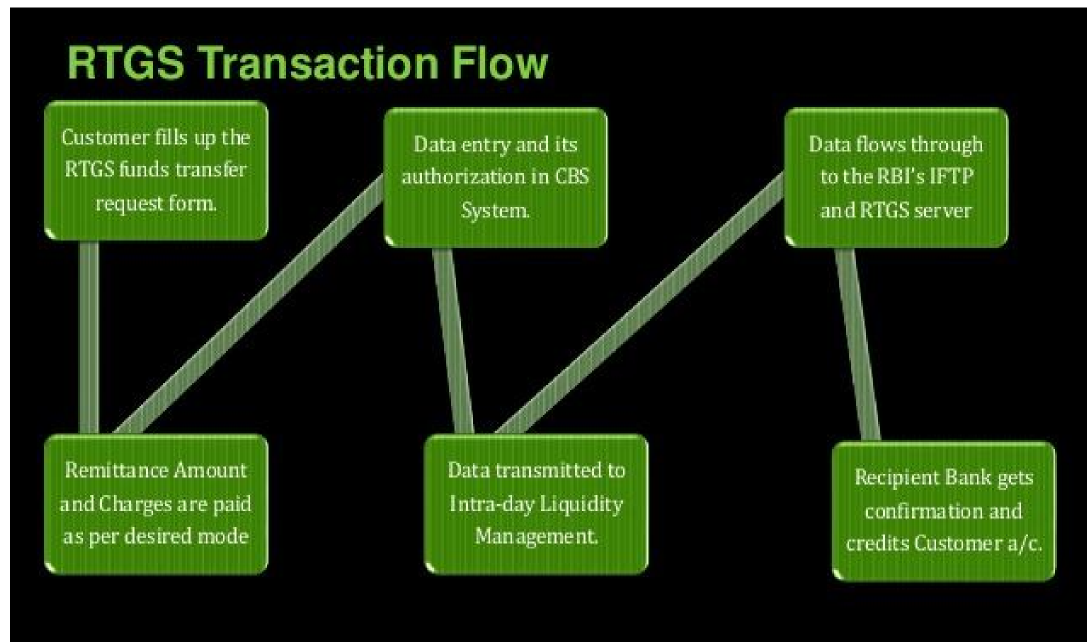
ECS Debit Charges:

The Reserve Bank of India has deregulated the charges to be levied by sponsor banks from user institutions. The sponsor banks are, however, required to disclose the charges in a transparent manner. With effect from 1st July 2011, originating banks are required to pay a nominal charge of 25 paise and 50 paise per transaction to the Clearing house and destination bank respectively. Bank branches do not generally levy processing / service charges for debiting the accounts of customers maintained with them.

C. Real Time Gross Settlement:

RTGS System:

The acronym 'RTGS' stands for Real Time Gross Settlement, which can be defined as the continuous (real-time) settlement of funds transfers individually on an order by order basis (without netting). 'Real Time' means the processing of instructions at the time they are received rather than at some later time; 'Gross Settlement' means the settlement of funds transfer instructions occurs individually (on an instruction by instruction basis). Considering that the funds settlement takes place in the books of the Reserve Bank of India, the payments are final and irrevocable.



Difference between RTGS and NEFT:

NEFT is an electronic fund transfer system that operates on a Deferred Net Settlement (DNS) basis which settles transactions in batches. In DNS, the settlement takes place with all transactions received till the particular cut-off time. These transactions are netted (payable and receivables) in NEFT whereas in RTGS the transactions are settled individually. For example, currently, NEFT operates in hourly batches. [There are twelve settlements from 8 am to 7 pm on week days and six settlements from 8 am to 1 pm on Saturdays.] Any transaction initiated after a designated settlement time would have to wait till the next designated settlement time Contrary to this, in the RTGS transactions are processed continuously throughout the RTGS business hours.

The minimum amount to be remitted through RTGS is Rs 2 lakh. There is no upper ceiling for RTGS transactions. Under normal circumstances the beneficiary branches are expected to receive the funds in real time as soon as funds are transferred by the remitting bank. The beneficiary bank has to credit the beneficiary's account within 30 minutes of receiving the funds transfer message.

The remitting bank receives a message from the Reserve Bank that money has been credited to the receiving bank. Based on this the remitting bank can advise the remitting customer through SMS that money has been credited to the receiving bank.

The RTGS service window for customer's transactions is available to banks from 9.00 hours to 16.30 hours on week days and from 9.00 hours to 14:00 hours on Saturdays for settlement at the RBI end. However, the timings that the banks follow may vary depending on the customer timings of the bank branches.

With a view to rationalize the service charges levied by banks for offering funds transfer through RTGS system, a broad framework has been mandated as under:

- Inward transactions – Free, no charge to be levied.
- Outward transactions – Rs 2 lakhs to 5 lakhs - not exceeding Rs 30.00 per transaction; above Rs 5 lakhs – not exceeding Rs 55.00 per transaction.

The remitting customer has to furnish the following information to a bank for initiating a RTGS remittance:

- Amount to be remitted
- Remitting customer's account number which is to be debited
- Name of the beneficiary bank and branch
- The IFSC Number of the receiving branch
- Name of the beneficiary customer
- Account number of the beneficiary customer
- Sender to receiver information, if any

D. National Electronic Funds Transfer

NEFT has gained popularity as it saves time and the transactions can be concluded easily. National Electronic Funds Transfer (NEFT) is a nation-wide payment system facilitating one-to-one funds transfer. Under this Scheme, individuals, firms and corporates can electronically transfer funds from any bank branch to any individual, firm or corporate having an account with any other bank branch in the country participating in the Scheme.
For being part of the NEFT funds transfer network, a bank branch has to be NEFT- enabled branch. The list of bank-wise branches which are participating in NEFT is provided in the website of Reserve Bank of India at http://www.rbi.org.in/scripts/neft.aspx

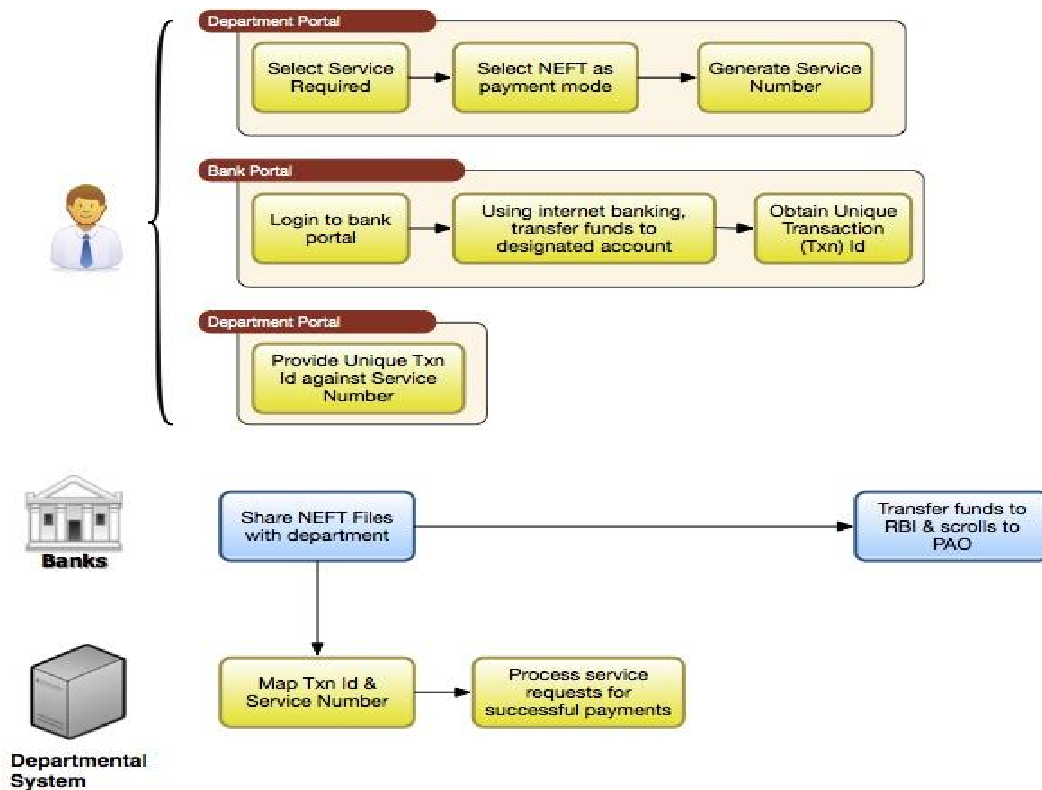
Individuals, firms or corporate maintaining accounts with a bank branch can transfer funds using NEFT. Even such individuals who do not have a bank account (walk-in customers) can also deposit cash at the NEFT-enabled branches with instructions to transfer funds using

NEFT. However, such cash remittances will be restricted to a maximum of Rs.50,000/- per transaction. Such customers have to furnish full details including complete address, telephone number, etc. NEFT, thus, facilitates originators or remitters to initiate funds transfer transactions even without having a bank account.

Individuals, firms or Corporates maintaining accounts with a bank branch can receive funds through the NEFT system. It is, therefore, necessary for the beneficiary to have an account with the NEFT enabled destination bank branch in the country.

Presently, NEFT operates in hourly batches - there are twelve settlements from 8 am to 7 pm on week days (Monday through Friday) and six settlements from 8 am to 1 pm on Saturdays.

NEFT Operations:



Step-1 : An individual / firm / corporate intending to originate transfer of funds through NEFT has to fill an application form providing details of the beneficiary (like name of the beneficiary, name of the bank branch where the beneficiary has an account, IFSC of the beneficiary bank branch, account type and account number) and the amount to be remitted. The application form will be available at the originating bank branch. The remitter authorizes his/her bank branch to debit his account and remit the specified amount to the beneficiary. Customers enjoying net banking facility offered by their bankers can also initiate the funds transfer request online. Some banks offer the NEFT facility even through the ATMs. Walk-in customers will, however, have to give their contact details (complete address and telephone number, etc.) to the branch. This will help the branch to refund the money to the customer in case credit could not be afforded to the beneficiary's bank account or the transaction is rejected / returned for any reason.

Step-2: The originating bank branch prepares a message and sends the message to its pooling centre (also called the NEFT Service Centre).

Step-3 : The pooling centre forwards the message to the NEFT Clearing Centre (operated by National Clearing Cell, Reserve Bank of India, Mumbai) to be included for the next available batch.

Step-4: The Clearing Centre sorts the funds transfer transactions destination bank-wise and prepares accounting entries to receive funds from the originating banks (debit) and give the funds to the destination banks (credit). Thereafter, bank-wise remittance messages are forwarded to the destination banks through their pooling centre (NEFT Service Centre).

Step-5: The destination banks receive the inward remittance messages from the Clearing Centre and pass on the credit to the beneficiary customers' accounts.

Indian Financial System Code (IFSC):

Indian Financial System Code (IFSC) is an alpha-numeric code that uniquely identifies a bank-branch participating in the NEFT system. This is an 11 digit code with the first 4 alpha characters representing the bank, and the last 6 characters representing the branch. The 5th character is 0 (zero). IFSC is used by the NEFT system to identify the originating / destination banks / branches and also to route the messages appropriately to the concerned banks / branches.

The structure of charges that can be levied on the customer for NEFT is given below:

- Inward transactions at destination bank branches (for credit to beneficiary accounts) -Free, no charges to be levied on beneficiaries

- Outward transactions at originating bank branches – charges applicable for the remitter are as follows:
  - For transactions up to Rs 10,000: not exceeding Rs 2.50 (+ Service Tax)
  - For transactions above Rs 10,000 up to Rs 1 lakh not exceeding Rs 5 (+ Service Tax)
  - For transactions above Rs 1 lakh and up to Rs 2 lakh: not exceeding Rs 15 (+ Service Tax)
  - For transactions above Rs 2 lakh: not exceeding Rs 25 (+ Service Tax)

With effect from 1st July 2011, originating banks are required to pay a nominal charge of 25 paise per transaction to the clearing house as well as to destination bank as service charge. However, these charges cannot be passed on to the customers by the banks.

The beneficiary can expect to get credit for the NEFT transactions within two business hours from the batch in which the transaction was settled (currently NEFT business hours are from 8 AM to 7 PM on all week days and from 8 AM to 1 PM on Saturdays)

In case of non-credit or delay in credit to the beneficiary account, the NEFT Customer Facilitation Centre (CFC) of the respective bank can be contacted (the remitter can contact his bank's CFC; the beneficiary may contact the CFC of his bank) and can be escalated to NEFT Help Desk (or Customer Facilitation Centre of Reserve Bank of India) at National Clearing Cell, Reserve Bank of India, Mumbai or the General Manager, Reserve Bank of India, National Clearing Centre, Mumbai Regional Office, Fort Mumbai 400001.

If it is not possible to afford credit to the account of the beneficiary for whatever reason, destination banks are required to return the transaction (to the originating branch) within two hours of completion of the batch in which the transaction was processed. For example, if a customer submits a fund transfer request at 12.05 p.m. to a NEFT-enabled branch, the branch in turn forwards the message through its pooling centre to the NEFT Clearing Centre for processing in the immediately available batch which (say) is the 1.00 pm batch. If the destination bank is unable to afford the credit to the beneficiary for any reason, it has to return the transaction to the originating bank, not later than in the 3.00 pm batch. On receiving such a returned transaction, the originating bank has to credit the amount back to account of the originating customer.

NEFT can also be used to transfer funds from or to NRE and NRO accounts in the country. This, however, is subject to the adherence of the provisions of the Foreign Exchange Management Act, 2000 (FEMA) and Wire Transfer Guidelines.

Besides personal funds transfers, the NEFT system can also be used for a variety of transactions including payment of credit card dues to the card issuing banks, payment of loan EMI etc. It is necessary to quote the IFSC of the beneficiary card issuing bank to initiate the bill payment transactions using NEFT.

In case of successful credit to the beneficiary's account, the bank which had originated the transaction is expected to send a confirmation to the originating customer (through SMS or e-mail) advising of the credit and mentioning the date and time of credit. For the purpose, remitters need to provide their mobile number / e-mail-id to the branch at the time of originating the transaction.

The remitter can track the NEFT transaction through the originating bank branch or its CFC using the unique transaction reference number provided at the time of initiating the funds transfer. It is possible for the originating bank branch to keep track and be aware of the status of the NEFT transaction at all times.

Following are the pre-requisites for putting through a funds transfer transaction using NEFT:

- Originating and destination bank branches should be part of the NEFT network
- Beneficiary's details such as beneficiary's name, account number and account type, name and IFSC of the beneficiary's bank branch should be available with the remitter
- Customers should exercise due care in providing the account number of the beneficiary, as, in the course of processing NEFT transactions, the credit will be given to the customer's account solely based on account number provided in the NEFT remittance instruction / message.

Benefits of NEFT:

NEFT offers many advantages over the other modes of funds transfer:

- The remitter need not send the physical cheque or Demand Draft to the beneficiary.
- The beneficiary need not visit his / her bank for depositing the paper instruments.
- The beneficiary need not be apprehensive of loss / theft of physical instruments or the likelihood of fraudulent encashment thereof.
- Credit confirmation of the remittances is sent by SMS or email.
- Remitter can initiate the remittances from his home / place of work using the internet banking also.
- Near real time transfer of the funds to the beneficiary's account in a secure manner.

3.3. Internet Banking

Internet Banking allows the customer of a Bank to conduct bank transactions online, instead of going to a bank and interacting with a teller. In a broad sense, it is the use of electronic means to transfer funds directly from one account to another, rather than by cheque or cash. It is a system of banking in which customers can view their account details, pay bills, and transfer money by means of the internet.

Uses of Internet Banking:

Customers use a password for conducting a number of transactions like NEFT funds transfers, pay taxes, etc. on line. On line purchases of railway / bus / hotel bookings, are all permitted in this channel. They can even fill up loan applications online.

Internet Banking may be used for:

- Payment of Bills
- Credit Card dues
- Insurance premiums,
- Customer services,
- Recharging prepaid phone and
- for shopping

Types of Internet Banking

- PC Banking: The term "PC banking" refers to the online access of banking information from a personal computer. A solution for both personal or business banking needs, this type of financial management allows you to conduct transactions using an Internet connection and your computer in lieu of a trip to the local bank branch or the use of an ATM. PC banking enables an account holder to perform real-time account activities and effectively manage finances in a way that avoids the hassle of daytime bank visits and eliminates the postage required to pay bills by mail.

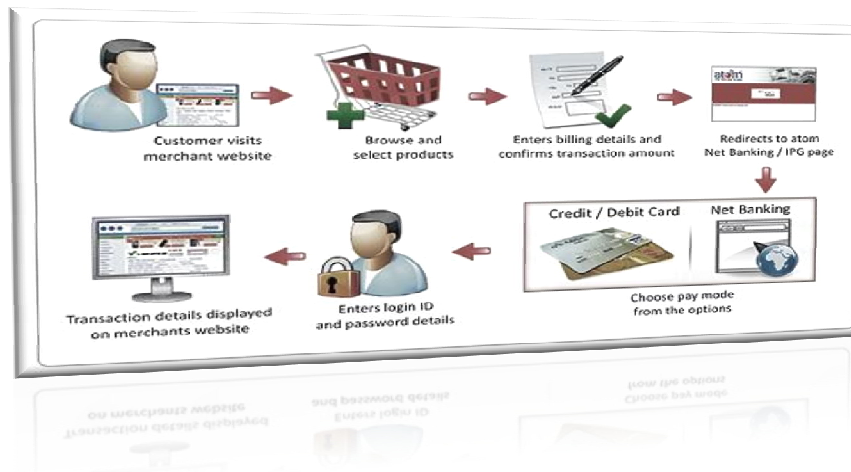
- Digital TV Banking: The Television Banking enables customers to conduct banking business with television and TV set-top box as the terminal and remote control for the operational tool based on the cable TV broadband network. Compared with online banking, television banking is closer to the life of everyone. Customers of television banking do not need to purchase a computer or bear the internet "jam"; compared with telephone banking, television banking has a more direct trading interface and all-inclusive information display. Television banking enables customers to complete banking transactions through the television, have access to financial products and industry information, and experience a more fashionable and convenient wealth management approach. With this service, customers can enjoy

such financial services as bank card transfer, inquiry and bill payment. Television banking has become another self-service channel following online banking, telephone banking, mobile banking and ATM. The television banking is still in its initial stage and has a limited number of customers; however, it will have plenty of room for development with the help and promotion of digital television technology.

- Text Phone Banking: Banks use mobile texting facility to provide updates to the customers. It uses the Short Message Services (SMS) for providing services such as Credit / Debit to customer account alert, daily balance alert, Loan payment date alerts etc.

Usage of Internet Banking:

- Step 1: Access Internet Banking - Obtain your User ID and Passwords.
- Step 2: Create your Own Unique User ID.
- Step 3: Link the Account Number to your User ID



Advantages of Internet Banking:

- It involves less cost, ensure transaction speed and efficiency. It ensures speed banking and vast coverage and is available 24 X 7

Issues in Internet Banking: As with online banking, Internet Banking faces similar issues which are:

- Security Learning difficulties
- Lack of skilled personnel
- Technical breakdowns

- Long start up time
- Inexpensive

Risks in Internet Banking:

- Increasing number of fraudulent websites
- Fake emails purporting to be sent from banks
- Attacks on online banking used today are based on deceiving the user to steal login data and valid TANs. viz. phishing and pharming
- Cross-site scripting and key logger / Trojan horses can also be used to steal login information.
- Man in the Browser attack, where a Trojan horse permits a remote attacker to modify the destination account number and also the amount.

Phishing

Phishing is the centre stage of Internet scams. Phishing is the way of sending emails at arbitrary, indicating to come from a candid company which is operating on the internet. When the customers make an attempt, its request disclosing information at a bogus website will be operated by them. Information entered on the bogus website is captured by the criminals and they use it for their own purpose.

Skimming

Fraudsters use skimmers to make fake ATM cards, a swipe-card device which reads consumer's ATM card's information. Scammers swipe information from credulous customers by inserting onto an ATM. They take a blank card and by inserting the card they are able to encode all the information when they swipe from an ATM and through a small camera which is mounted on the ATM the skimmer catches the PIN**.**

Spoofing:

The invader creates a misleading context which false you in making an unsuitable security-appropriate decision. For example false ATM machines have been set up. If they will be having PIN number they will be having enough information to steal from the account.

Security Features

- Security token device for online banking
- Use of a secure website has become almost universally adopted
- Single password authentication
- PIN/TAN system where the PIN represents a password, used for the login
- OTP (One time password) to user's (GSM) mobile phone via SMS.
- Signature based online banking where all transactions are signed and encrypted digitally
- Digital certificates are used against phishing and pharming
- Use of class-3 card readers is a measure to avoid manipulation of transactions by the software in signature based online banking variants
- Users should use virus scanners and be careful with downloaded software or e-mail attachments to protect Trojan attacks

3.4. Safe Deposit Lockers:

Safe deposit vaults or bank lockers have long been considered the safest place to store valuable ornaments, stock certificates, deeds and other valuables. While most banks offer such a facility, the locker size, annual rent, deposit required, time period and provision for refund differs for various banks.

A box (usually located inside a bank) - is used to store valuables. A safe deposit box is rented from the institution and can be accessed with keys, pin numbers or some other security pass. Valuables such as documents and jewellery are placed inside and customers rely on the security of the building to protect those valuables.

Process for hiring Bank Locker:

In order to rent a safe deposit vault, you must first have a savings account with the particular bank. Some banks may also ask you to deposit a fixed amount as cautionary deposit for a specific time period. You have to pay the locker rent in advance, either for one year or more, depending on the bank. Apart from the usual documents required for opening a bank account (identity and address proof), banks conduct a signature verification process before renting out a locker.

You can operate the locker either singly or jointly, but only one key is allotted per customer, while the other key remains with the bank.

A bank locker can be assigned to any adult, firm or association, on a single or joint basis. You have to fill a simple locker application form and locker agreement, agreeing to abide by the terms and conditions, and pay the deposit amount and the rent.

Most banks insist on some kind of financial collateral. So, they give a locker only to their existing account holders, or to those who agree to open an account (savings or current) or make a fixed deposit that covers rentals for three years and charges for breaking open the locker in case of an eventuality.

Need of Bank Lockers:

Storing too much jewellery and valuables in the house at times becomes a security risk and an impediment in case of natural calamities. Bank lockers offers you, a safe, trustworthy space to store your valuables, jewellery, documents and other things.

Customer / Bank relationship:

The relationship between a person hiring the locker and the bank is that of a Lessee and a lesser.

Bank Locker Charges

The rent may vary slightly for different branches of the same bank depending on the branch location. The locker rent is higher if the branch is located in a prime commercial area of the city. Moreover, private and foreign banks charge a much higher rent compared to public sector banks.

If you decide to close your locker in mid year, in most cases, you forego the annual rent which you paid at the beginning of the year. As regards the safety aspect, most banks claim that confidentiality of the locker's contents is maintained, unless the income tax authorities or the police require otherwise.

Persons who can avail Bank locker facilities: Locker facility is provided by the bank at its select branches. For obtaining a locker at the bank, you must be an account holder with the bank.

- Lockers can be allotted both individually (except minor) as well as jointly.
- The lockers are allotted on first come first served basis to the customers only.

- At the time of hiring the locker, bank will obtain a minimum-security deposit in the form of a Fixed Deposit Receipt (FDR) from the lessee for the amount which would be sufficient to cover 3 years rent and the charges for breaking open the locker in case of such eventualities.
- The Security Deposit will be kept under Bank's lien in respect of rentals and other dues on locker services.
- An acknowledgement will be issued by the bank for fixed deposit to be kept as security deposit.
- The hirer of the locker will be provided the copy of the agreement i.e. 'Memorandum of Letting' by the bank.
- Loss of key should be immediately informed to the bank branch.
- The bank is responsible for any loss.
- Charges for opening the locker, or replacing the lost key, and for changing the lock shall be payable by the Renter(s).
- With standing instruction, the rent may be recovered by the bank from the deposit account of the hirer on due date.
- The Renter is required to operate the locker at least once in every six months and if the locker remains un-operated for more than a year from the last date of operation then the bank has a right to cancel the allotment of the locker by giving a notice for security reasons and treat the Renter/s as a defaulter, notwithstanding that the rent has been paid up to date.
- The locker is to be operated during the specified timing displayed at the branches.

Operations of Bank Locker:

There are two keys for opening the locker. One key is with the lessee (customer) and the other (one master key) is with the bank. The lessee needs to visit the branch during the specified time mentioned for the locker operations.

- Lessee will sign the register filling in the locker number.
- Responsible Bank officer will verify the signature with the Bank records.
- If the signature tallies, the officer will take the customer to the locker room.
- Bank officer will open the locker with his key and then lesser will open the locker with his key to open the locker.
- Once the locker is opened, the Bank officer will leave the locker room and the lesser will deposit / withdraw valuables he wants

- Once he completes his transaction, he closes the locker door and locks the locker with his key only.

The locker operation may vary from the Bank to Bank based on the type of locker, standard procedure followed by the Bank

As per the RBI policy: "The bank will, in no way, be responsible / liable for the contents kept in the locker by the hirer. In case of theft, burglary or similar unforeseen events, action will be initiated as per law." The RBI has also said that even if the banks do not know about the contents of the locker, they should take necessary steps to protect the contents in the locker. There have been a few cases in the past where customers have received compensation for loss or damage to locker contents.

It is always beneficial to avail the benefits of nomination facility available to locker-hirers. The major advantage of availing this facility is that in the event of unfortunate death of locker-hirer, the right to operate the locker is vested in the person who has been designated as the Nominee.

3.5. Summary:

In Demand draft as the Bank is the drawer, payment is certain and it cannot be dishonoured.

Remittance of funds using Demand Draft is done through the clearing and settlement process

ECS is used by institutions for making bulk payment of amounts towards distribution of dividend, interest, salary, pension, etc., or for bulk collection of amounts towards telephone / electricity / water dues, cess / tax collections, loan instalment repayments, periodic investments in mutual funds, insurance premium etc.

ECS Credit enables payment of amounts towards distribution of dividend, interest, salary, pension, etc., of the user institution.

ECS Debit is useful for payment of telephone / electricity / water bills, cess / tax collections, loan instalment repayments

NEFT is deferred net settlement (DNS) payment system which helps transfer of money in a batch of one hour basis from 8 am to 7 pm

Real Time Gross Settlement is the system which helps transfer of funds on real time basis

(0900 to 1630 hrs) but has limit of minimum amount of Rs 2 lakhs.

Internet banking allows you to conduct bank transactions online with the use of electronic means.

Bank Lockers provides facilities to keep personal valuables like will property papers and jewellery

Keywords

DD – Demand Draft

ECS – Electronic Clearing System

NEFT – National Electronic Funds Transfer

RTGS - Real Time Gross Settlement

IFSC - Indian Financial System Code

OTP - One Time password

3.6. Practice Questions

I. Choose the correct option:

1. Which is the fastest mode of payment?
   a) Cheque
   b) Draft
   c) NEFT
   d) RGTS

2. Phishing is an electronic instrument for fishing
   a) is related to cyber crime
   b) is one of the latest forms of wishing somebody
   c) none of them

3. Electronic Payment system used for crediting salary is known as ________.
   a) ECS Debit
   b) ECS Credit
   c) NEFT
   d) RTGS

4. What does NEFT stands for?
   a) National Economic Fund Transfer
   b) National Electron Fund Tenor
   c) National Electronic Fund Transfer

5. The Bank which initiates ECS credit is known as ______ Bank
   a) Sponsor Bank
   b) Destination Bank
   c) Beneficiary Bank

6. In case of inward remittance through RTGS, ___ amount is charged by the Bank.
   a) Zero
   b) Rs 30 per transaction
   c) Rs 55 per transaction.

7. Cash remittance limit for NEFT transaction for a walk in customer is
   a) Rs 10,000
   b) Rs 25,000
   c) Rs 50,000
   d) Rs 200,000

8. Indian Financial System Code is
   a) Alpha numeric 11 digit code
   b) Numeric code 11 digit code
   c) Alpha numeric 8 digit code
   d) Numeric code 8 digit code

9. Which is the costliest mode of payments?
   a) Cheque
   b) Demand Draft
   c) RTGS
   d) NEFT

Answers: 1- d, 2 – a, 3 – d, 4 – c, 5-a, 6 - a, 7 – c, 8 –a, 9 –a

II. Fill in the blanks:

1. Banker Lockers are not used for _____, _____, ______.
2. Pay orders are also called _____ cheques
3. Banks charges ___ for the issuance of Demand
4. In case of demand draft, your PAN number will be necessary if the amount of DD exceeds Rs.______
5. RBI run __ NEFT batches on a normal day.
6. Minimum amount that can be transferred through RTGS is Rs ________________.
7. In case of ECS Credit, there is ___ debit and ____ credits
8. _________ and ________ can be used to steal login information in online banking
9. Digital certificates are used against _______ and ________
10. Bank locker operations requires ___ keys

Answer : 1 – Drugs, Guns and Explosives, 2 – Bankers' cheque, 3 – Commission, 4 – Rs 10,000.00, 5 – 12, 6 – Rs 200,000.00, 7 – one and multiple, 8 – Key logger and Trojan horses, 9 - phishing and pharming, 10 - 2

III. Answer in detail

1. What are advantages of using Demand draft?
2. Explain the process of obtaining a Demand draft?
3. What are the security issues in e banking?
4. What are the services provided through e banking?
5. What are the other utility services provided by the Bank?
6. What are the advantages of Electronic Clearing systems?
7. What are the differences between ECS Debit and ECS Credit?
8. What are the differences between NEFT & RTGS?
9. What is the need for Bank lockers?
10. Explain in brief the procedure for availing Bank locker?

IV. Activities:

1. Get demand draft request form and request the students to fill the same and discuss the steps involved in obtaining a demand draft?
2. Fill in the request for RTGS & NEFT payment
3. Visit a Bank branch to see the locker operations.

Learning Objective – Unit 4

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<tr><th>LOCATION</th><th colspan="4">DURATION-20 HOURS</th></tr>
<tr><td rowspan="7">INSURANCE OFFICE AND CLASSROOM</td><td colspan="4">SESSION-1 LIFE INSURANCE POLICIES</td></tr>
<tr><td>Learning Outcome</td><td>Knowledge Evaluation</td><td>Performance Evaluation</td><td>Teaching and Training Method</td></tr>
<tr><td>Meaning of Basic concept of Life Insurance Policies</td><td>1. Meaning of Life Insurance
2. Features of Life Insurance
3. Advantages of Life Insurance
4. Importance of Life Insurance</td><td>1. Explain the meaning of Life Insurance
2. Describe the advantages of Life Insurance
3. Evaluate the Importance of Life Insurance to individual
4. Substantiate the key elements of Life Insurance</td><td>Interactive lecture On the core concept Life Insurance Policies
Activity- Visit a Life Insurance Organization to get a general overview of functioning of an Insurance organization</td></tr>
<tr><td colspan="4">SESSION -2 TYPE OF LIFE INSURANCE POLICIES</td></tr>
<tr><td>Brief outlook on the various types of Life Insurance Plans</td><td>1. Whole Life Plans
2. Endowment Plans
3. Term Assurance Plan
4. Children Plans
5. Money Back Plans
6. Group Insurance Schemes</td><td>1. Explain the concept of various types of plans.
2. Describe the usefulness of such plans.</td><td>Interactive lecture- Detailed discussion on the types of Life Insurance policies

Activity –
• Visit any LIC branch and prepare a Presentation on any one type of Life Insurance Plan
• Interaction with an Insurance officer in classroom.</td></tr>
<tr><td colspan="4">SESSION – 3 PROCEDURE FOR TAKING POLICY</td></tr>
<tr><td>Understanding the procedure for taking a policy.</td><td>To analyze the steps for taking a policy
1. Proposal form
2. Proof of age
3. First Premium Receipt
4. Policy Bond</td><td>1. List out the steps to be undertaken while taking a Life Insurance Policy
2. Explain the procedure in detail</td><td>Interactive lecture- On the procedure of taking a Policy
Activity- Collect all the document required for</td></tr>
</table>

		5. Certificate of Insurance 6. Cover Note		taking Life Insurance Policy.
	SESSION-4 NOMINATION AND ASSIGNMENT OF A POLICY			
	Understanding the concept of Nomination and Assignment	1. Meaning of Nomination 2. Meaning of Assignment 3. Difference between Nomination and Assignment	1. Discuss in detail the concept of Nomination 2. Explain with example the meaning of Assignment 3. Distinguish between Nomination and Assignment with suitable example	**Interactive lecture-** Highlight the importance and meaning of Nomination and Assignment **Activity-** Group Discussion highlighting the importance of Nomination and Assignment

UNIT 4

LIFEINSURANCE PRODUCT

OBJECTIVES

By the end of this module, you will be able to:

- Understand the concept of Life Insurance
- Understand features , advantages and Importance of Life Insurance
- Analyze various types of Life Insurance Policies
- Enumerate the procedure of taking Life Insurance Policies
- Understand the Nomination and assignment of Life Insurance Policies.

STRUCTURE

4.1.Life Insurance - Meaning

4.2.Features of Life Insurance

4.3.Advantages of Life Insurance1.4. Importance of Life Insurance Policies

4.5.Types of Life Insurance Policies

4.6.Procedure of Taking Life Insurance Policy

4.7.Nomination and Assignment of Life Insurance Policies

4.8.Summary

4.9.Key Words

4.10. Self Assessment Questions

4.1 Life Insurance - Meaning

Life Insurance is a financial cover for a contingency or risk linked with human life such as loss of life by death, disability, accident etc. The risk to human life is due to natural factors or causes related to various types of accidents. When human life is lost or a person is disabled permanently or temporarily there is a loss of income to the entire household.

It is not possible to value human life. Rather it would be more appropriate to say that human life is beyond any value. However it would also be inappropriate to say that loss of human life or a disability does not result into any financial loss. Such loss would be primarily due to loss of income that could have been earned by the effected person. Hence the most appropriate method to determine such loss would be to assess the same on the basis of loss of income in the future years, also known as human life value.

Life Insurance policies provide compensation for such loss by providing for payment of a definite amount of money to be paid by the Insurer in the event the Insured dies or is disabled permanently/temporarily during the term of the policy.

4.2 Features of Life Insurance

There are various ways of defining Life Insurance. Some of the definitions of Life Insurance are as follows:

A. Life insurance is a contract to pay a certain sum of money on the death of a person in consideration of the due payment of a certain annuity for his life calculated according to the probable duration of life.

B. "Life insurance contract is a contract whereby a person (insurer) agrees for a consideration (that is payment of a sum of money) or a periodical payment, called the premium to pay to another (insured or his estates) a stated sum of money on happening of an event dependent on human life.

C. Life insurance is a contract in which one party agrees to pay a given sum of money upon the happening of a particular event contingent upon the duration of human life in consideration of immediate payment of a smaller sum or other equivalent periodical payments by the other.

One of the basic factors that distinguish Life Insurance from other types of Insurances is that **Life Insurance is not a contract of indemnity whereas the other forms of Insurance are essentially contracts of Indemnity**. Under the principle of Indemnity the insured should be compensated only for the loss that has been incurred by him as a result of the event in respect of which the insurance has been taken. It will not be in order if the Insured should make any profit out of such event.

The effect of Life Insurance not being a contract of indemnity is that on the happening of an event insured against, the insurer should pay the agreed amount irrespective of whether assured suffers a loss or not.

Based on this definition the essential features of life insurance can be summed up as under:

- It is a contract relating to human life.
- There need not be an express provision that payment is due on the death of a person.
- Money called premium has to be paid in advance by the Insured to the Insurer.
- The contract provides for payment of lump sum money
- The amount is paid at the expiration of a certain period or on the death of a person.

4.3 Advantages of Life Insurance

Life Insurance provides dual benefits to the persons taking such insurance. These dual benefits are savings and security.

The following factors explain as to why this investment tool should be a part of one's financial plans.

A. Risk Cover

Life is today full of uncertainties. In this scenario Life Insurance ensures that the loved ones of the Insured continue to enjoy good quality of life and the same should not be affected by any unforeseen circumstances. Since in the event of death of the Insured, the amount provided in the policy is paid by the Insurer to the next of kin who people then will be able maintain a reasonable life style.

B. Planning Life Stage Needs

Life Insurance not only provides for financial support in the event of untimely death but also acts as a long term investment. One can meet one's goals, be it children's education, their marriage, building your dream home or planning a relaxed and peaceful retired life. This is because generally on the expiry of the term of insurance the insured gets the amount for which policy was taken plus bonus/s.

C. Habit of Saving

Life Insurance is a long term contract where as a policy holder one has to pay a fixed amount at specified periods. This builds the habit of Long term savings. Regular Savings over a long period ensures that a decent corpus is built to meet various needs at different stages of life.

D. Safety of Investment

The investment made in Life Insurance is quite safe as Life Insurance is a highly regulated sector. The body that regulates Insurance Sector in India is called IRDA (Insurance Regulatory and Development Authority)

E. Liquidity

Life Insurance provides good liquidity to the Policy Holders as such policies provide an option of taking loan against their policy. Thus when there is an urgent need of funds, the insured can avail the facility of loan against his policy which will, however, depend upon the surrender value of the Policy.

F. Tax Benefits

The premiums paid for life insurance policies and the amounts received in the event of death or on maturity of the said policy attract tax benefits.

4.4 Importance of Life Insurance Policies

From the above it can easily be inferred that Life Insurance is an essential part of a person's financial planning.

Apart from being an effective tool of saving, it can ensure financial security to those who mean the most to insured such as spouse, children and dependent parents in the event of death of the insured.

A carefully executed life insurance policy can help a person prepare for life's uncertainties and give peace of mind knowing that the future of those who rely on you is secure.

4.5 Types of Life Insurance Policies

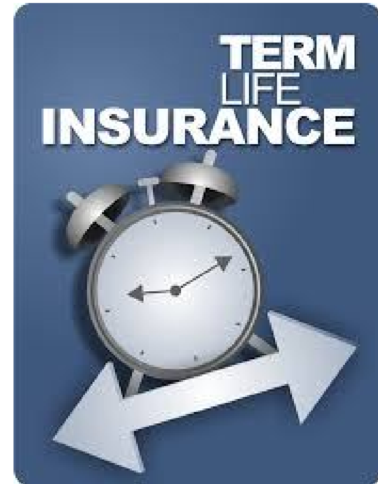
As per the above discussion it becomes apparent that Life Insurance is required for both protection and investment purposes. Based on the primary objective and benefits, life insurance products are of the following types:

- Traditional plans like term insurance, endowment, money back, etc.
- Unit linked insurance plans

Let's discuss each of them in detail.

A. Term Insurance

Term Insurance is the simplest form of life insurance. The payment of Insurance amount is made only if death occurs during the term of the policy, which may, generally, range from one to 30 years. Most term policies do not provide for any other benefit.



Thus the features of Term Insurance Plan are as follows:

- It is a pure life cover i.e. in the event of death of the insured the sum assured is paid to the family (beneficiaries/nominees).
- In case the insured survives the policy term, there is no refund of premium.
- There is no investment component in a term plan.

Example

Mr. X took a term insurance plan from ABC Life Insurance Co. Ltd. for a period of 20 years and sum assured of Rs.10lacs. In the event of his death, Rs.10lacs would be paid to Mrs. X. If Mr. X survives the term, there will be no refund of premium.

B. Whole Life Insurance

Under this policy, premiums are paid throughout the life of the Insured and the sum insured becomes payable only in the event of the death of the insured. The policy remains in force throughout the life of the assured and he continues to pay the premium till his death. This is the cheapest policy as the premium is to be paid till the death of the Insured hence the same i.e. the premium is low in this policy as compared to other policies.

This type of Policy is also known as ‘ordinary life policy’.

C. Endowment Plans

An endowment policy is a saving linked Insurance policy with a specific maturity date. This type of policy serves the dual purpose of saving as well as securing the family in the event of death. Hence these days this is the most popular type of Life Insurance Policy.

The features of an endowment policy are as follows:

a) The term for which policy is taken is called Endowment Period.

b) The sum assured is paid at the end of the endowment period or in the event of death of the insured, whichever is earlier.

c) The premium under this policy is paid upto the maturity of the policy ie the point of time when the amount under the policy becomes payable.

d) Options are also available where premiums can be paid for specific periods (terms like 5yrs/10 yrs/15 yrs etc) and maturity periods can be 10/15/20/25/30/35 years (depending on the age of policy holder).

Under this type of Policy the premium would be little higher than the whole life policy.

D. Child Policies

These types of policies are taken on the life of the parent/child for the benefit of the child. Under the terms of this policy the parent can plan to get funds when the child attains various stages in life. Some Insurers offer waiver of premium in case of unfortunate death of the parent/proposer during the term of the policy.

These policies can be used towards education expenses, marriage expenses and any other expenses that can be planned for the life at different life stages.

E. Annuity/ Pension Plans

When an employee retires he no longer gets his salary while his need for a regular income continues. Though there are Retirement benefits such as Provident Fund and gratuity which are paid in lump sum but they may be spent too quickly or may not be invested prudently. As a result of this the retired employee finds himself without regular income in his post - retirement days.

Pension is ideal solution to this problem as it entails benefit in the form of regular income. Financial independence during old age is a must for everybody.

This issue of having regular income during old age is taken care off by Annuity Policies. Annuities are series of payments received at fixed intervals over a fixed number of years or over the lifetime of the individual.

Accordingly the features of Annuity Policy are as follows:

a) It is a policy under which the insured amount is payable to the assured by monthly or annual installments after he attains a certain age.
b) The assured may pay the premium regularly over a certain period or he may pay the premium regularly over a certain period or he may a lump sum of money at the beginning of the Policy

These policies are useful to persons who wish to provide a regular income for themselves and their dependents.

F. Money Back Policies

Unlike ordinary endowment insurance plans where survival benefits are payable only at the end of endowment period, Money Back Policy provides for periodic payments of partial survival benefits during the term of the policy, of course, so long as the policy holder is alive.

Examples

a) In case of a 20 year Money Back Policy, 20% of the sum assured becomes payable after 5,10, 15 years and the balance of 40% plus the accrued bonus becomes payable at the end of 20th Year.

b) For a Money Back Policy of 25 years, 15% of the sum assured becomes payable after 5, 10, 15, 20 years and the balance 40% plus the accrued bonus becomes payable at the end of 25th year.

An important feature of this type of policies is that in the event of death at any time within the policy term, the death claim comprises full sum assured without deducting any of the survival benefit amounts, which have already been paid. Similarly the bonus is also calculated on the full sum assured.

Thus money back policy is an endowment policy with liquidity benefits.

Illustration

Bhakt Sethi has opted for a **Money Back Life Insurance Policy**. His plan has a Sum Assured of 5 lakhs for a policy term of 25 years. He would need to pay premiums for 25 years. And he would get back a part of the Sum Assured at regular intervals. For example, for a policy of 25 years, he would get 15% of Sum Assured after the 5th, 10th, 15th and 20th year of the policy i.e. he gets 15 X 4 = 60% of the Sum Assured as Survival Benefit. On Maturity of the policy he would get the remaining 40% of the Sum assured.

G. Group Insurance

Group insurance is an insurance that covers a defined group of people such as the members of a Society or a Professional Association or the employees of a particular Organization.

In Life Insurance under Group Insurance Scheme the life insurance cover is allowed to all members of the group. However, under this scheme the insured amount is paid only on the death of a member of the group and there is no maturity value at the end of the scheme.

The premium rates are more competitive in Group Insurance as compared to other insurances. These policies are suitable for large part of population who cannot afford individual life cover. Further members of an eligible group who otherwise cannot be insured can benefit through group insurance. Once the conditions of group insurance are satisfied, members can get life insurance at significantly lower rates compared to individual policies.

The group may consist of employees, doctors, lawyers, credit societies etc. A group insurance scheme can be either

a. **Contributory scheme** – In this case the premium on the group life insurance policy is paid by both the employer and the employee.

b. **Non-Contributory scheme –** In this case premium is paid by the employer or the main agency fully.

H. Unit Linked Insurance Plan

Unit linked insurance plans (ULIPs) aim to serve both the protection and investment objectives of investing. ULIP's are subject to capital market risks.

4.6 Procedure of taking Life Insurance Policies

The procedure for taking out a Life Insurance Policy is as under:

A. Fill a proposal form providing information such as his name, age, occupation, medical history, particulars regarding his health and that of his parents, the amount he wishes to be insured for, the type of policy, the rate and mode of premium and name of the nominee.

B. Submit proof of age (Birth certificate, and baptism certificate for Christians, high school certificate, service book , passport, adhar card).

C. Obtain an 'Age admission certificate' from the Insurance Company

D. A medical examination by Insurer's-approved doctors. The doctor's report is sent directly to the Insurer. This step is often bypassed for someone very young or if the insured amount is very small.

E. After the medical report, the Insurer's agent's confidential report is submitted to obtain impartial information about the individual.

F. An assessment of risk is made based on the information obtained. If the life proposed is found insurable, then the Insurer accepts it and sends an acceptance letter along with a premium notice stating the amount of the premium payable and the due date.

G. On and from the date of payment of the first premium, the risk of the Insurer commences on the life proposed and he/she becomes life insured. However, in case of certain policies, the risk commences from a later date. Once the risk commences, Insurer becomes liable to pay the full amount of insurance in the event of happening of the insured event.

H. The signed and stamped original policy documents are dispatched to the individual.

4.7 Nomination and Assignment of Life Insurance Policies

A. Nomination

a. Meaning

Nomination means nominating a person to receive the benefits of a Life Insurance Policy. The person so nominated is called the Nominee.

The nominee has the right to receive the amount assured in the event of the death of the Insured.

The nominee need not necessarily be a relative or a Legal Representative of the assured and can be changed at the choice of the policy holder any number of times.

b. How is Nomination effected

Nomination can be done at the inception of the policy by providing details of nominee in the proposal form. However, if the nomination is not done at the inception of the policy, the policyholder can nominate at a later date. This nomination has to be effected by giving notice in a prescribed form to Insurer and getting it endorsed on policy bond.

c. Who Can Nominate

Nomination can be done only by a policyholder who is a major & holding Policy Bond in his own name.

d. What are rights of a Nominee

Under Nomination, the Nominee gets only the right to receive the policy money in the event of the death of the policyholder. Nomination does not pass on the property in the policy. If nominee dies when the policyholder is still surviving then the nomination

would be ineffective. Nomination has no effect if the policyholder is surviving. If Nominee dies after the death of the policyholder but before receiving policy money, then also Nomination becomes ineffective and money can be claimed only by the legal heirs of the policyholder.

e. How can Nomination be cancelled

A nomination can be changed or cancelled either by an endorsement at the back of the policy or by making a will. In the case of change or cancellation by a will, notice of such cancellation or change would be required from the executors of the will after the death of the insured. In case of change or cancellation through endorsement, it should be notified to the Insurer for registration in its records.

B. Assignment

a. Meaning of Assignment of Policies

Assignment is a means whereby the beneficial interest, right and title under a policy get transferred from the assignor to the assignee. Assignor is the policyholder who transfers the title and 'Assignee is the person who derives the title from the assignor.

b. When can assignment be made

Assignment can be made only after acquiring the policy. Assignment can be done only for consideration- for money or money's worth or good, moral and meritorious consideration like, love and affection

c. How is the Policy assigned

Assignment can be done by mere endorsement on the policy or by a separate duly stamped deed. Assignment can be done by the proposer, policyholder, or the absolute assignee

d. What are the essential features of assignment

Assignment can be done by mere endorsement on the policy or by separate duly stamped deed. Assignment can be done by the proposer, policyholder, or the absolute assignee

e. What are the essential features of assignment

- The person assigning the policy must have absolute right or interest vesting in him in respect of the policy.
- The assignor must be a major and competent to enter into a contract.
- The assignor must not be subject to any legal disqualification.
- A life insurance policy from LIC may be assigned only after a period of five years.

4.8. Summary

- Life Insurance is a financial cover for a contingency or risk linked with human life such as loss of life by death, disablement, accident etc.
- The most appropriate method to determine the financial loss due to loss of human life would be to access the same on the basis of loss of income in the future years. This is also known as human life value.
- Life Insurance provides dual benefits to the person taking such insurance. These dual benefits are savings & security.
- Life Insurance Products are of the following types:
  a) Traditional plans like term insurance, endowment, money back etc.
  b) Unit linked Insurance Plans
- Nomination means nominating a person to receive the benefits of Life Insurance Policy. The person nominated is called Nominee.
- Assignment is a means whereby the beneficial interest, right & title under the policy gets transferred from assignor to assignee.

4.9. Key Words

a. Nomination
b. Assignment
c. Term Insurance
d. Whole Life Insurance
e. Endowment
f. Annuity

4.10. Self Assessment Questions

A. Fill Up the Blanks

a. Life Insurance is a ___________ a cover for a contingency or risk linked with _____ _________ such as loss of life by death, disability, accident etc.

b. Life Insurance is not a contract of _______ whereas other forms of insurance are essentially contracts of __________.

c. Life Insurance provides dual benefits to the person taking the insurance. These dual benefits are _______ & ________.

d. _________ linked ________ plan is a type of Life Insurance.

e. An endowment policy is a saving linked insurance policy with a specific _______ date.

Answer key : a) financial; human life; b) indemnity; indemnity c) saving; security; d) Unit; Insurance e) maturity

B. True or False

a. Life Insurance provides dual advantage of coverage of risk of life and investment. State whether this statement is :

True/ False

b. Under Term Insurance the insured is paid only if death occurs during the term of the policy. In case the insured survives the policy term, there is no return of premium. State whether this statement is :

True/ False

c. The nominee has the right to receive the amount assured in the event of death of the Insured. State whether:

True / False

d. Assignment of Life Insurance Policy can be done even before acquiring the Life Insurance Policy. State whether

True/ False

e. Assignment of Life Insurance Policy cannot be done by simple endorsement. It has to be done by separate duly stamped deed. State whether

True/False

Answer keys : a) True b) True c) True d) False e) False

C. Match the Following

S.No	Section A	Section B

1.	Group Insurance	Periodic Payments
2.	Money Back Policy	Retirement
3.	Pension Plan	Maturity Date
4.	Endowment Policy	Right to receive
5.	Nomination	Defined group of people

Answer Keys:

Section A	Section B
1.	5
2	1
3	2
4	3
5	4

D. Choose the Correct Option

a. Assignment of Life Insurance Policy can be done only for _________ for money or money's worth.

Payment ; Consideration ; Premium ; Receipt.

b. A nomination of Life Insurance Policy can be changed or cancelled either by ________ at the back or by making a will.

Stamp ; Declaration ; Endorsement ; Statement

c. The issue of having regular income during old age is taken care off by ___________ Policies.

Endowment ; Benefit ; Annuity; Regular Income

d. The first step towards taking a Life Insurance Policy to fill up a ____________ form providing requisite information about the person desirous of taking the policy.

Application; Proposal; Word ; Project

e. In case of a contributory scheme the premium on group life insurance policy is paid both by the _____ & the ____________

Insured, Insurer; Insured, Nominee; Insured, Assignee; Employer, Employee.

Answer keys: a) Consideration b) Endorsement c) Annuity d) Proposal e) Employer, Employee.

E. Answer in brief

a. Explain the meaning of the term Assignment of Life Insurance Policy.

b. Explain the meaning of the term Nomination of Life Insurance Policy

c. Explain the benefits of Annuity/ Pension Plans.

F. Answer in detail

a. Explain different types of Life Insurance Policies.

b. Explain the steps involved in taking Life Insurance Policies

Learning Objective – Unit 5

<table>
<tr><td>LOCATION</td><td colspan="4">DURATION-20 HOURS</td></tr>
<tr><td rowspan="7">INSURANCE OFFICE AND CLASSROOM</td><td colspan="4">SESSION-1 GENERAL INSURANCE</td></tr>
<tr><td>Learning Outcome</td><td>Knowledge Evaluation</td><td>Performance Evaluation</td><td>Teaching and Training Method</td></tr>
<tr><td>Meaning and Importance of General Insurance
Types of General Insurance</td><td>1. Detail view Of General Insurance
2. Enlisting the key features of General Insurance
3. Subsidiaries of General Insurance</td><td>1. Explain the Meaning of General Insurance
2. Enlist the need and importance of General Insurance
3. Identify various Subsidiaries of General Insurance</td><td>Interactive lecture On the core concept Life Insurance Policies
Activity- List the companies which provide General Insurance.</td></tr>
<tr><td colspan="4">a. FIRE INSURANCE</td></tr>
<tr><td>Meaning, need, importance and Types of Fire Insurance</td><td>1. Meaning of Fire Insurance
2. Stressing the need and importance of Fire Insurance
3. Scope of Fire Insurance
4. Types of Fire Policy
➢ Specific Policy
➢ Value Policy
➢ Average Policy
➢ Floating Policy</td><td>1. Discuss in detail the meaning of Fire Insurance
2. Enumerate the importance of Fire Insurance
3. Discuss the various types of Fire Insurance Policies</td><td>Interactive lecture- On the scope of Fire Insurance with need and importance
Activity –
Name 10 Insurance companies which provide Fire Insurance.</td></tr>
<tr><td colspan="4">b. MARINE INSURANCE</td></tr>
<tr><td>Meaning, need, importance, Types of Marine Insurance</td><td>1. Meaning of Marine Insurance
2. Need and Importance of Marine Insurance
3. Types of Marine Insurance Policy
➢ Voyage Policy
➢ Time Policy
➢ Valued Policy
➢ Floating Policy</td><td>1. Explain the meaning Marine Insurance
2. Enlist and Explain the various forms of Marine Insurance
3. Identify the need of Marine Insurance</td><td>Interactive lecture- On the meaning importance of Marine Insurance
Activity- Name 10 Insurance companies which provide Marine Insurance.</td></tr>
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<tr><td></td><td colspan="4">c. MISCELLANEOUS INSURANCE POLICIES (INSURANCE, MOTOR VEHICLES INSURANCE, BURGLARY AND THEFT INSURANCE)</td></tr>
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➢ Health Insurance
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2. Identify the need of such Policies</td><td>1. Explain the meaning of various health Insurance , Motor Vehicles Insurance, Burglary and Theft Insurance
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Activity- Name 10 Insurance companies which provide Motor Vehicle, Burglary and health Insurance.</td></tr>
<tr><td></td><td colspan="4">SESSION -2 PROCEDURE FOR TAKING FIRE/MARINE INSURANCE</td></tr>
<tr><td></td><td>Identifying the procedure of taking the fire Insurance and Marine Insurance</td><td>Enlisting the Steps involved in taking Fire Insurance Policy/Marine Insurance Policy
➢ Selecting the Insurance Company
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➢ Evaluating Property
➢ Accepting Proposal
➢ Issuing Cover note
➢ Issuing Final Policy</td><td>1. List the steps involved in taking o Fire Insurance Policy
2. Enumerate the procedure of finalizing the Marine Insurance Policy</td><td>Interactiv e lecture- On the steps for taking Fire and Marine Insurance Policy
Activity- The class should visit an insurance company which offers fire and marine insurance. They should observe the actual working and prepare a presentation on the procedure of taking/ Issuing such policies</td></tr>
</table>

Then there could be Third Party Claims on you. For instance, you are driving a car and unfortunately you meet with an accident in which a pedestrian is injured. Such person will have a Claim on you.

Also there could be claims on you while you are performing your professional duties. A Doctor may be subject to a claim for negligence in treating a patient.

General Insurance, wherever applicable, would provide cover against such losses. The modern day General Insurance covers practically all losses arising out of risks. The primary risk that is not covered by General Insurance is death of a person which is covered by Life Insurance.

Needless to say, when the losses due to risks are covered a person would lead a peaceful life. The Security provided by General Insurance would improve the quality of life of a person.

Apart from the peace of mind General Insurance also covers Business Losses and Personal Losses in case the unfortunate incident happens resulting in the loss. This would help the person who has suffered loss to run his business smoothly.

Illustration

Let us take an example where a fire occurs in a factory. As a result of the fire certain stocks are damaged and are unusable. In case fire insurance has been taken for such stocks, the Insurance Company would pay, to the entity which suffered the loss, an amount equivalent to the loss or the amount of insurance whichever is less.

Thus such entity would be fully or partly compensated for the loss incurred by it. Even though the fire may result into disruptions this would help it in running its operations smoothly even after some time.

of a Motor Vehicle, against any loss that he may incur due to damage to the property (i.e. the Motor Vehicle) or any other person (i.e. Third Party) as a result of an accident.

There are two types of Motor Vehicle Insurance:

a. Mandatory

In India it is mandatory i.e. required by Law, for every owner or operator of a Motor Vehicle to take insurance that provides for payment of compensation to a Third Party who dies or suffers injuries due an accident caused by the said motor vehicle. Thus the objective of such a policy is prevention of public liability to protect the general public from any accident that may take place on the road.

It may be noted here that in Insurance the Insured is the First Party, the Insurance Company is the Second Party and all other are third parties.

Such a policy is also known as 'Act Only' Policy as it is mandatory by Law.

b. Comprehensive

Under a comprehensive motor insurance policy apart from the coverage of Third Party Liability (as provided in the mandatory policy) various other risks are also covered. These include damage to the Motor Vehicle caused by fire, accident, theft etc.

As a single policy is issued to cover all risks, such type of policy is called Comprehensive Policy.

D. Health Insurance Policy

The Health Insurance or Medi Claim Policies, as it is also referred to, are those policies which cover hospitalization expenses for the treatment of illness/ injury as per the terms and conditions of the policy.

These policies may also cover pre hospitalization expenses prior to hospitalization and also post hospitalization expenses for the period specified in the policy.

Some of the Insurers also cover the following expenses in this policy:

- **a.** Ambulance Charges
- **b.** Day Care treatment charges i.e. treatment by using advanced technologies when even 24 hours of hospitalization is not required.
- **c.** Hospitalization room rent per day/ number of days.

E. Personal Accident Insurance

The purpose of personal insurance is to provide for payment of a fixed compensation for death or disablement resulting from injury to the body of a human being caused due to an accident.

Thus under the contract of personal accident insurance if at any time during the tenure of the said contract or policy, the insured (i.e. the person who has taken the policy) sustains any bodily injury resulting from an accident, the Insurer shall pay to the insured or to his legal representatives, as the case may be, a specified sum in the event of specified contingencies such as permanent disability, death etc.

F. Burglary or Theft Insurance

Theft Insurance Contract covers losses from burglary, robbery and other forms of theft.

Theft generally refers to the act of stealing. Burglary is defined to mean the unlawful taking of the property within the premises that have been closed and in which there are visible marks evidencing forceful entry.

2.4. Fire Insurance

A. What is Fire Insurance

Fire insurance is a contract under which the insurer in return for a consideration (premium) agrees to indemnify the insured/assured for the financial loss which the Insured may suffer due to destruction of or damage to property or goods, caused by fire, during a specified period.

Thus the basic ingredients of Fire Insurance are as follows:

a. The financial loss should be on account of fire resulting in damage or destruction of property or goods.

b. The maximum amount which the Insured can claim as compensation in the event of loss is agreed to between the parties at the time of entering into the contract.

It should be understood here that the event that results into financial loss would be fire and not accident. Secondly the financial loss resulting from damage to a property may be much more than the sum assured. In such case the Insurer would be liable to make payment of the sum assured only.

For example, if a person has insured her house for Rs.10.00 lakh against loss by fire, the insurer is not liable to pay the full sum, unless the house is destroyed by fire, but only pay the actual loss subject to the maximum limit of Rs. 10.00 lakh.

B. Importance of Fire Insurance

Fire insurance provides the security for home, stock, furniture, business buildings, etc,. Fire insurance provides the cost of replacement of properties and assets, which gets damaged due to the fire accident.

Fire insurance provides the benefits for the home owner in these ways

a. It provides the cost of damage for the building

b. It provides the replacement cost, if any furniture is destroyed due to the fire accident, like plywood furniture, carpets, clothes

c. It provides replacement or repair cost for the electronic items, which is damaged due to fire, like television, computer, and air coolers.

Fire insurance provides benefits to the business in the following ways

a. It covers the cost of stock damaged due to the fire

b. It provides the death benefits to employee, in case of death occurred due to the fire accident.

c. It provides the replacement or repair cost for the machines, if they get damaged due to fire accident.

d. It provides the medical expenses for the employees, if they get injured due to the fire accident.

Fire accidents are very much unexpected but are heavily destructive. Hence, having fire insurance is very much essential.

C. Proximity Clause

In order to establish a claim under a fire insurance policy it will not be sufficient to prove that the loss is attributable to fire. It will also be essential to prove that the fire must be the efficient proximate cause for the loss.

In other words the fire must be the immediate cause or dominant factor and not the remote or the distant cause.

This is in terms of Proximity Clause.

D. Scope of Fire Insurance

a. Types of Losses covered by Fire Insurance are:

The following losses have been held to be caused proximately by fire:

i. Loss which is the necessary consequence of fire in the sense that had there been no fire it would not have happened.

ii. Loss which is reasonable and probable consequence of fire in that it results in ordinary course of event from the happening of fire.

iii. Loss caused by water used to extinguish fire, destroying property or by Fire Brigade in the execution of their duties.

iv. Loss arising as a consequence of removal of property from the building in which fire is raging with the intention of saving it or loss due to theft during the confusion caused by fire.

v. Wages paid to persons engaged in extinguishing fire.

b. Losses not covered by a fire insurance policy

In determining the extent of liability of the Insurer, the cause of fire is immaterial unless it has been deliberately brought about by the Insured.

Thus the claim of Fire Insurance will not be admissible if the fire is caused by the wilful act of the Insured or by someone else acting in concert with him.

Following are the losses that are not covered by the Fire Policy:

i. Loss due to fire caused by earthquake, invasion, act of foreign enemy, hostilities or war, civil strife, riots, mutiny, martial law, military rising or rebellion or insurrection.

ii. Loss caused by subterranean (underground) fire.

iii. Loss caused by burning of property by order of any public authority.

iv. Loss or damage to property caused by its own fermentation or spontaneous combustion e.g. exploding of a bomb due to an inherent defect in it.

v. Loss or damage by lightening or explosion is not covered unless these caused actual ignition which spread into fire.

E. Types of Fire Insurance Policies

The different types of Fire Insurance Policies are as follows:

a. Specific policy

A specific policy is a policy which insures the risk for a fixed amount. Under this Policy the Insurer will pay the actual loss or the Insured amount whichever is less.

In this policy the value of the property has no relevance in arriving at the liability.

b. Valued Policy

In such a policy a fixed amount is paid as compensation irrespective of the loss. This type of policy violates the principle of Indemnity and can be legally challenged, at the time of loss the market value of the property is not taken into consideration.

c. Average Policy

A fire policy containing an average clause is called Average Policy. An average policy requires the insurer to pay that proportion of actual loss as the Insurance bears to the actual value of the property at the time of loss.

Example: If the actual value of the property is Rs 10,00,000 and the same is insured for Rs 8, 00,000 and loss on account of fire is Rs 2,00,000. In such case the Insured will get

$$\frac{8,00,000}{10,00,000} \times 2,00,000 = 1,60,000$$

The balance of Rs 40,000 shall be borne by the Insured himself.

However if the insured amount is equal to the value of the property or more than that he will get compensation of the entire loss i.e. Rs 2,00,000.

d. Floating Policy

This policy covers loss by fire caused to property belonging to the same person but located at different places under a single sum and for one premium. Such a policy might cover goods lying in two warehouses at two different locations. This policy is always subject to 'average clause'.

e. Comprehensive policy

This is also known as 'all in one' policy and covers risks like fire, theft, burglary, third party risks, etc. It may also cover loss of profits during the period the business remains closed due to fire.

f. Replacement or Re-instatement policy

In this policy the insurer inserts a re-instatement clause, whereby he undertakes to pay the cost of replacement of the property damaged or destroyed by fire. Thus, he may re-instate or replace the property instead of paying cash. In such a policy, the insurer has to select one of the two alternatives, i.e. either to pay cash or to replace the property, and afterwards he cannot change to the other option.

2.5. Marine Insurance

A. Introduction to Marine Insurance

Trade by sea is one the oldest form of trade that countries have followed. Transit of goods by sea has various risks associated with it.

Such risks would include, amongst others, the following:

a. Losing the ship along with goods that being carried by it.

b. Sea Piracy i.e. robbery or criminal violence at sea.

c. Loss or damage to goods while goods are on ship

d. Transit Delays

These risks gave rise to one of the most important and oldest forms of Insurance called 'Marine Insurance'

In the current era, Marine Insurance is not limited to transportation by sea other inland waters but also covers transportation of goods by rail, road, air as well as couriers.

Marine insurance plays a very important role in the field of overseas commerce and internal trade of a country.

B. Types of Marine Insurance

Marine insurance now has a vast coverage but broadly marine insurance can be classified into four major types:-

a. Hull Insurance:

The Hull is the basic structure of a Ship. On the Hull the superstructure is constructed.

Thus, as the name suggests, Hull Insurance covers any loss or damage to ships, tankers, bulk carriers, smaller vessels, fishing boats and sailing vessels. It covers the insurance of the vessel and its equipment i.e. furniture and fittings, machinery, tools, fuel, etc. A Hull Policy may also cover the risk while the vessel is under construction. Ship-owners, charterers, Shipbuilders, bankers, financiers of Ships or vessels who have Insurable interest can buy this policy.

Since the goods that are loaded on the ship or any other type of vessel do not form a part of the basic structure of the ship the loss arising out of damage of such goods is not covered by Hull Insurance.

b. Cargo Insurance:

Cargo means the goods carried on a ship.

Thus as the terms suggests, cargo insurance is taken in respect of the cargo carried by the ship from one place to another. This covers goods, freight and other interests against loss or damage to goods whilst being transported by rail, road, sea and/or air.

It includes the cargo or goods contained in the ship and the personal belongings of the crew and passengers. The cargo insurance policy may be a 'time policy' or 'voyage policy'. When the policy is for a definite period, it is known as 'time policy'; if it is for a particular voyage it is known as 'voyage policy' and there is no time limit. There may be mixed time and voyage policies.

Cargo insurance, accordingly, concerns the following:

i. Export and import shipments by ocean-going vessels of all types,
ii. Coastal shipments by steamers, sailing vessels, mechanized boats, etc.
iii. Shipments by inland vessels or country craft, and
iv. Consignments by rail, road, or air and articles sent by post.

c. Freight Insurance

Freight is the rent or amount paid for the transportation of cargo. This insurance provides protection against the loss of freight. Generally, the ship-owner and the person receiving the freight is one person. The freight could be paid in advance or at the destination.

Under the marine law the freight is paid only if the cargo reaches safely at the destination port. Therefore, if the freight has been paid in advance, it poses no difficulty. There is a problem sometime when the freight is payable at the destination and the cargo may get lost during the voyage and does not reach its destination. In that event the freight is lost and the shipping company has to bear the cost. In order to overcome such contingency freight insurance is taken.

For example- The owner of goods is bound to pay freightage, under the terms of the contract, only when the goods are safely delivered at the port of destination. If the ship is lost on the way or the cargo is damaged or stolen, the shipping company loses the freight. Freight insurance is taken to guard against such risk.

d. Liability Insurance

In this type of insurance the insurer undertakes to indemnify against the loss which the insured may suffer on account of liability to a third party caused by collision of the ship and other similar hazards.

A liability is a legal obligation owned to an individual or group/organization. For example in case of collision the liability of the insured will be to the owner of the other vessel (as well as other stakeholders depending on the related legal aspects).

Third party is a person or group apart from the two primarily involved in a situation/transaction, especially in a dispute like collision of the ship with another ship. It also covers legal liability towards damages to the third party in respect of accidental death, bodily injury or loss of or damage to property along with Legal costs and expenses incurred with prior consent.

C. Insurable Interest

In a contract of marine insurance, the insured must have insurable interest in the subject matter insured at the time of the loss. Insurable interest means the policyholder must have a

pecuniary or monetary interest in the property which has been insured by him. Insurable interest is not required to be present at the time of taking the policy but it should exist at the time of loss. Under marine insurance, the following persons are deemed to have insurable interest:-

- The owner of the ship has an insurable interest in the ship.
- The owner of the cargo has insurable interest in the cargo.
- A creditor who has advanced money on the security of the ship or cargo has insurable interest to the extent of his loan.
- The master and crew of the ship have insurable interest in respect of their wages.
- If the subject matter i.e. goods etc of insurance is mortgaged, the mortgagor has insurable interest in the full value thereof, and the mortgagee has insurable interest in respect of any sum due to him.
- A trustee holding any property in trust has insurable interest in such property.
- In case of advance freight the person advancing the freight has an insurable interest in so far as such freight is repayable in case of loss.
- The insured has an insurable interest in the charges of any insurance policy which he may take.

Thus anyone having an interest in the transaction or "insurable interest" can procure insurance cover.

D. Types of Marine Insurance Policies

There are various types of Insurance Policies under Marine Insurance depending on the duration & type and the nature of the risk that is covered.

Some of the Marine Insurance policies are:

a. Specific Voyage policy

This is a policy in which the subject matter is insured for a particular voyage irrespective of the time involved in it.
In this case the risk is initiated only when the ship starts on the voyage. This policy is valid for a single voyage or transit. The policy will be issued before the voyage starts. The coverage will cease immediately on completion of the voyage.

The specific voyage policy must show complete details of the risk. It should contain particulars of conveyance/Vessel name/ Way bill or Bill of Lading* the date and sum insured terms and conditions of cover voyage cargo description etc like all other marine policies.

A waybill or Bill of Lading is a document issued by a carrier giving details and instructions relating to the shipment of a consignment of goods. It serves as evidence that the goods were actually shipped. It also gives the particulars of the cargo.

b. Time policy

This is a policy in which the subject matter is insured for a definite period of time.

The ship may pursue any course it likes; the policy would cover all the risks from perils of the sea for the stated period of time. A time policy cannot be for a period exceeding one year, but it may contain a 'continuation clause'. The 'continuation clause' means that if the voyage is not completed within the specified period, the risk shall be covered until the voyage is completed, or till the arrival of the ship at the port of call.

c. Mixed policy

This is a combination of voyage and time policies and covers the risk during particular voyage for a specified period of time.

d. Valued policy

This is a policy in which the value of the subject matter insured is agreed upon between the insurer and the insured and it is specified in the policy itself.

e. Open or Un-valued policy

This is the policy in which the value of the subject matter insured is not specified. Subject to the limit of the sum assured, it leaves the value of the loss to be subsequently ascertained. This policy is issued for transit of goods within India. Policy is valid for one year and all transits during the policy period and declared are automatically covered by the insurance company subject to the availability of the overall sum insured.

f. Open Cover

This policy which is issued for a policy period of one year indicates the rates, terms and conditions agreed upon by the insured and insurer to cover the consignments to be imported or exported.

A declaration is to be made to the insurance company as and when a consignment is to be sent along with the premium at the agreed rate.

The insurance company will then issue a certificate covering the declared consignment. Open cover is usually issued for import/export. The open cover is a contract affected for a period of 12 months whereby the insurance company agrees to provide insurance cover to all shipments coming within the scope of the open cover. Open cover is not a policy. It is an unstamped agreement. As and when shipments are declared, specific policies are issued as evidence of the contract and on collection of premium.

g. Floating policy

This is a policy which only mentions the amount for which the insurance is taken out and leaves the name of the ship(s) and other particulars to be defined by subsequent declarations. Such policies are very useful to merchants who regularly dispatch goods through ships.

h. Wagering or Honour policy

This is a policy in which the assured has no insurable interest and the underwriter is prepared to dispense with the insurable interest. Such policies are also known as 'Policy Proof of Interest (P.P.I).

i. Special Declaration Policy

This is a form of floating policy issued to clients whose annual estimated dispatches (i.e. turnover) by rail / road / inland waterways exceed Rs 2 cores. Declaration of dispatches shall be made at periodical intervals and premium is adjusted on expiry of the policy based on the total declared amount. When the policy is issued sum insured should be based on previous year’s turnover or in case of fresh proposals, on a fair estimate of annual dispatches.

j. Special Storage Risks Insurance

This insurance is granted in conjunction with an open policy or a special declaration policy. The purpose of this policy is to cover goods lying at the Railway premises or carrier’s godowns after termination of transit cover under open or special declaration policies but pending clearance by the consignees. The cover terminates when delivery is taken by the consignee or payment is received by the consignor, whichever is earlier.

k. Annual Policy

This policy, issued for 12 months, covers goods belonging to the insured, which are not under contract of sale, and which are in transit by rail / road from specified depots / processing units to other specified depots / processing units. This policy may be issued to cover goods in transit by road or rail or sea from specified depots or processing units owned or hired by the insured. The goods covered must belong to or held in trust by the insured. These policies cannot be assigned or transferred. For such policies the sum insured should not be less than Rs 5,000/-.

l. “Duty” Insurance

Cargo imported into India is subject to payment of Customs Duty, as per the Customs Act. This duty can be included in the value of the cargo insured under a Marine Cargo Policy, or a separate policy can be issued in which case the Duty Insurance Clause is incorporated in the policy.

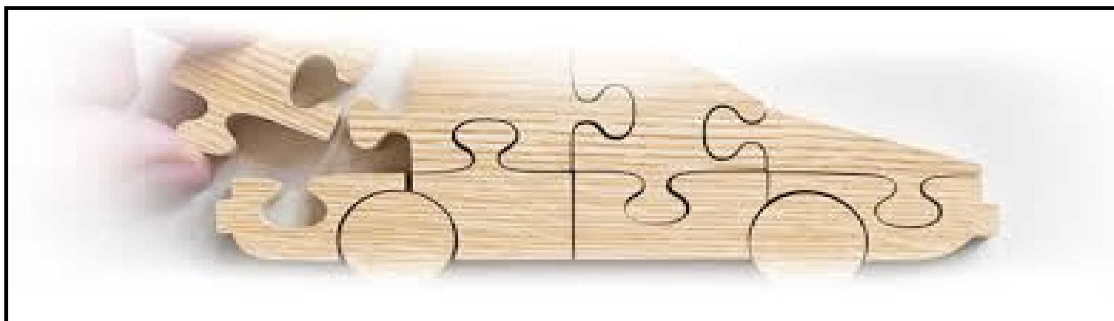
Warranty provides that the claim under the Duty Policy would be payable only if the claim under the cargo policy is payable.

This policy also covers loss of custom duty paid in case goods arrive in damaged condition. This policy can be taken even if the overseas transit has been covered by an insurance company abroad, but it has to be taken before the goods arrive in India.

5.6 Motor Vehicle Insurance

A. Introduction to Motor Vehicle Insurance

Motor Vehicle Insurance, also referred to as ‘Automotive Insurance’, is a contract of Insurance under which the Insurer indemnifies the Insured, who is the owner or an operator of a Motor Vehicle, against any loss that he may incur due to damage to the property (i.e. the Motor Vehicle) or any other person (i.e. Third Party) as a result of an accident.



There are two types of Motor Insurance viz:

- Mandatory Motor Vehicle Insurance
- Comprehensive Motor Vehicle Insurance

B. Classification of Motor Vehicles

For the purpose of motor insurance the motor vehicles are classified into following three broad categories:

a. Private cars

b. Motor cycles and motor scooters

c. Commercial vehicles which are further classified into

i. Goods carrying vehicles
ii. Passenger carrying vehicles e.g.
- Motorized rickshaws
- Taxis
- Buses

iii. Miscellaneous Vehicles, e.g.
- Hearses (funeral van)
- Ambulances
- Cinema Film Recording & Publicity vans
- Mobile dispensaries etc

C. Classification of Parties

In case of motor vehicle insurance the classification of the parties is as follows:

- The Insured is the First Party
- The Insurer is the Second Party
- All other parties are Third Parties

D. Mandatory Motor Vehicle Insurance

There are situations where an accident caused by Motorist may result into the injury or death of a third party. Such third party may be a pedestrian walking on the road or who is knocked down by the motor vehicle or a passenger who is travelling in the vehicle. Similarly the motor accident may also result in the damage to the property of a Third Party.

In the earlier days, such third persons were not able to get any compensation as the motorists did not have enough resources to compensate them and the insurance policies also did not provide for the insured to compensate these victims of accidents.

This anomaly was removed with the enactment of Motor Vehicle Act 1988 which provides for mandatory insurance against Third Party Risks.

Thus while the Insurance against damage to motor vehicles caused by an accident is not mandatory the insurance of third party liability arising out of use of motor vehicles in public places is made mandatory. Accordingly no motor vehicle can ply in a public place without such Third Party Insurance.

Quantum of Liability under Third Party Insurance

The policy of insurance should cover the liability incurred in respect of an accident as follows:

a. In respect of death of or bodily injury to any person, the amount of liability incurred is without limit i.e. unlimited

b. In respect of damage to any property of third party: A limit of Rs.6,000/-.

The liability in respect of death of or bodily injury to any passenger of a public service vehicle in a public place, the amount of liability incurred is unlimited.

E. Comprehensive Insurance

Under a comprehensive motor insurance policy apart from the coverage of Third Party Liability (as provided in the mandatory policy) various other risks are also covered. Such policy may provide coverage for the damage to the motor vehicle caused by the following events:

- Fire, Explosion, Self- Ignition, Lightning
- Burglary/Housebreaking / Theft

- Riot & Strike
- Earthquake
- Flood, Storm, Cyclone, Hurricane, tempest, inundation, hailstorm, frost
- Accidental external means
- Malicious Act
- Terrorism acts
- While in Transit by Rail/ Road, Inland waterways, Lift, Elevator or Air
- Land slide / Rock slide

These damages caused due to the above events are called 'Own Damages'. Thus a Comprehensive/ Own Damage Policy covers both Third Party Liability (Act Liability) and Own Damage.

It will be in the interest of the Insured that apart from coverage of third party liability which as explained earlier is mandatory, maximum possible risks should be covered.

5.7 Health Insurance

Health Insurance is an insurance against the risk of covering medical expenses among individuals. With Medical costs on the rise and increased awareness about health related issues, a large number of people opt for health insurance covers. Health insurance has become one of the most important insurance policies that people opt for. A health insurance cover helps in reducing the burden of medical bills and expenditure.

A. What is Health Insurance?

IRDA regulations define Health Insurance Business as: "Health insurance business" or "health cover" means the effecting of insurance contracts which provide for sickness benefits or medical, surgical or hospital expense benefits, including assured benefits and long- term care, travel insurance and personal accident cover.

Thus the term ‘Health Insurance’ relates to a type of insurance that essentially covers one’s medical expenses.

Accordingly a health insurance policy is a contract between insurers and an individual / group in which the insurer agrees to provide specified health insurance cover for a particular “premium” subject to terms and conditions specified in the policy.

In case of medical emergencies or medical illnesses (as covered and specified by the policy) the insurer agrees to pay for the expenses incurred (as per the specified amount) thereon. Health insurance is important in times of hospitalization as one gets cover from the Insurer and saves the insured from excess expenditure. For a consideration known as premium, which the assured needs to pay the insurer, the insurer agrees to cover certain medical expenses as specified in the policy.

B. Coverage under Health Insurance

A Health Insurance Policy would normally cover expenses reasonably and necessarily incurred under the following heads in respect of each insured person subject to overall ceiling of sum insured (for all claims during one policy period).

Thus, all expenses incurred as part of treatment or hospitalization will be covered if:

- It is within the policy period
- Expenses covered are limited to the amount insured

In a health insurance policy the following may be covered:

- Room, boarding expenses
- Nursing expenses
- Fees of surgeon, anaesthetist, physician, consultants, specialists
- Anaesthesia, blood, oxygen, operation theatre charges, surgical appliances, medicines, drugs, diagnostic materials, X-ray, Dialysis, chemotherapy, Radio therapy, cost of pace maker, Artificial limbs, cost or organs and similar expenses.

Health policies may also contain a provision for reimbursement of cost of health check up.

C. Sum Insured

The sum assured is decided by the kind of policy the insured is buying. The Sum Insured offered may be on an individual basis or on floater basis for the family as a whole.

D. Types of Health Insurance Policies

The commonest form of health insurance policies in India cover the expenses incurred on Hospitalization, though a variety of products are now available which offer a range of health covers, depending on the need and choice of the insured. The health insurer usually provides either direct payment to hospital (cashless facility) or reimburses the expenses associated with illnesses and injuries or disburses a fixed benefit on occurrence of an illness. The type and amount of health care costs that will be covered by the health plan are specified in advance.

Health insurance policies are available from a sum insured of Rs 5,000 in micro-insurance policies to even a sum insured of Rs 50 Lakhs or more in certain critical illness plans. Most insurers offer policies between 1 lakh to 5 lakh sum insured.

Also, while most non-life insurance companies offer health insurance policies for a duration of one year, there are policies that are issued for two, three, four and five years duration also.

A Hospitalization policy covers, fully or partly, the actual cost of the treatment for hospital admissions during the policy period.

A Critical Illness benefit policy provides a fixed lump sum amount to the insured in case of diagnosis of a specified illness or on undergoing a specified procedure.

There are also other types of products, which cater to the needs of specified target audience like senior citizens.

Thus there are many types of policies issued by the Insurance Companies. The variation is based on the coverage i.e. What all the policy will insure the insured for, age group and number of people insured.

Some of the main policy types are listed below:

a. Personal Accident Policy

This policy is basically designed to offer compensation to the insured person who suffers bodily injury solely as a result of an accident which is external, violent and visible. Hence death or injury due to any illness or disease is not covered by the policy.

This policy offers compensation in case of death or bodily injury to the insured person, directly and solely as a result of an accident, by external, visible and violent means. The policy operates worldwide and is a 24 hours cover.

Different coverage's are available ranging from a restricted cover of Death only; to a comprehensive cover covering death, permanent disablements and temporary total disablements.

Family Package cover is available to Individuals under Personal Accident Policy whereby the proposer, spouse and dependent children can be covered under a single policy with a 10% discount in premium.

Group personal accident policies are also available for specified groups with a discount in premium depending upon the size of the group.

There are many other variations of this policy; for example the New India Assurance Company Limited offers the following:

- Individual Personal Accident policy.
- Group Personal Accident policy.
- Passenger Flight Coupon - Covering personal accident risk whilst travelling as a passenger on a scheduled flight.
- Garmin Personal Accident Policy - for persons residing in rural areas where benefits are covered for a capital sum insured of Rs. 10,000/-.
- Janata Personal Accident policy - where benefits are covered for a maximum sum insured of Rs.1,00,000/-. Long Term Policies can also be issued up to 5yrs.
- Student Safety Insurance - for schools and colleges, covering students against Personal Accident benefits for a capital sum insured of Rs. 10,000/-.
- Raj Rajeshwari Mahila Kalyan Yojna - for women in the age group of 10 to 75 years. Where benefits are covered for a capital sum insured for Rs. 25,000/-. In case of death of an unmarried woman due to an accident, Rs. 25,000/- is payable to the nominee or legal heir. In case of a married woman, if the husband dies due

to an accident, Rs. 25,000/- is payable to the wife but if the wife or insured dies no compensation is payable.

- Bhagyashree Child Welfare Policy - for girl child in the age group of 0 to 18 years. Whose parent's age does not exceed 60 yrs. In case of death of either or both parents due to an accident, a sum of Rs. 25,000/- is deposited in the name of the girl child with a financial institution named in the policy which will disburse amounts as specified for the benefit of the girl child to the living parent or to the nominated guardian. Group policies can also be issued.

b. Medi claim Policy

This Policy is designed to give the insured, protection against unforeseen Hospitalization expenses. This insurance is available to persons between the age of 18 years and 65 years. Children between the age of 3 months and 25 years can be covered provided they are financially dependent on the parents and one or both parents are covered simultaneously. The upper age limit will not apply to a mentally challenged child and an unmarried daughter.

This Policy does NOT cover ALL cases of Hospitalization. Any Hospitalization expense relating to a Pre Existing Disease is not payable. Similarly, a Hospitalization expense for pregnancy is not covered under the Policy. There are other such instances, where the claim is not payable. These exclusions and other details are listed in the policy document.

For Medi claim Policies, each Insured Person has a separate Sum Insured. The insurer will pay Hospitalization expenses up to a limit, known as Sum Insured. In cases where the Insured Person is hospitalized more than once, the total of all amounts paid

- for all cases of Hospitalization,
- expenses paid for medical expenses prior to Hospitalization,
- expenses paid for medical expenses after discharge from hospital, and
- Any other payment made under the Policy shall not exceed the Sum Insured.

Another variation of this policy is the Family Medi claim policy. For Family Medi claim 2012 Policies, the Sum Insured is for all persons covered. In Family Medi claim 2012 policies, any payment made to one Insured Person would make the Sum Insured reduced for all Insured Persons.

The total payments (under a Family Medi claim 2012 Policy) for all Insured Persons for all claims during the Policy period shall not exceed the Sum Insured.

c. Floater Health Insurance Policy:

Family Floater is one single policy that takes care of the hospitalization expenses of the entire family. The policy has one single sum insured, which can be utilized by any/all insured persons in any proportion or amount subject to maximum of overall limit of the policy sum insured. Quite often Family floater plans are better than buying separate individual policies. A family Floater plan takes care of all the medical expenses during sudden illness, surgeries and accidents. This insurance is available to persons between the ages of 18 years to 60 years.

FLOATER BENEFIT means the Sum Insured as specified for the proposer under the policy, is available for any or all the members of his /her family for one or more claims during the tenure of the policy.

The Family Floater Medi claim Policy can be issued to the persons up to 60 years of age covering the following family members:

- Self
- Spouse
- Dependent children - Maximum two

Parents/Parents-in law/ brothers and sisters are not covered under Family Floater Policy even if they are residing with the proposer.

The other features of Floater Health Insurance Policy are:

- Sum Insured: Minimum Sum Insured is Rs. 2 lakhs and Maximum Sum Insured is Rs 5 lakhs.
- Premium: Premium is as per Individual Medi claim Policy (2007). The basic premium will be as per highest age of the family member.

For example, a family consists of self, spouse and two children purchases health insurance of Rs 1.00 lakh.

Under the floater policy, any family member can avail the medical claim of Rs 1.00 lakh. The premium will be applicable to the highest aged member of the family.

d. Critical Illness Insurance Policy:

Critical illness insurance or critical illness cover is an insurance product, where the insurer is contracted to typically make a lump sum cash payment if the policyholder is diagnosed with one of the critical illnesses listed in the insurance policy. Critical Illness insurance covers hospitalization expenses and also gives a lump sum compensation that can help one meet day to day expenses .The policy may also be structured to pay out regular income and the payment may also be on the policyholder undergoing a surgical procedure, for example, having a heart bypass operation.

The contract terms contain specific rules that define when a diagnosis of a critical illness is considered valid. It may state that the diagnosis need be made by a physician who specializes in that illness or condition, or it may name specific tests, e.g. EKG changes of a myocardial infarction, that confirm the diagnosis.

e. Group Health Insurance Policy:

The Group Health Insurance Policy is available to any Group / Association / Institution / Corporate body of more provided it has a central administration point and subject to a minimum number of persons to be covered. The group policy is issued in the name of the Group / Association / Institution / Corporate Body (called insured) with a schedule of names of the members including his/her eligible family members (called insured persons) forming part of the policy.

The coverage under the policy is the same as under Individual Medi claim Policy with the following differences:-

- Cumulative bonus and Health Check up expense are not payable.
- Group discount in the premium is available
- Renewal premium is subject to claims made during the previous policy.
- Maternity benefit extension is available at extra premium. Option for maternity benefits has to be exercised at the inception of the policy period and no refund is allowable in case of insured cancellation of this option during currency of the policy.

f. Overseas Medical Policy:

Medical expenses incurred by the insured persons, outside India as a direct result of bodily injuries caused or sickness or disease contracted are covered by this policy. Policy is to be taken prior to departure from India. Premium payable in Rupees and Claims settled abroad in foreign Currency. Policy is available for frequent corporate travellers.

Eligibility: Indian Residents undertaking bona fide trips abroad for:

- Business and official purposes.
- Holiday purpose
- Accompanying spouse and children of the person who is going abroad will be treated as going under holiday travel.
- Foreign Nationals working in India for Indian employers of Multi-National Organisation getting their salary in Indian Rupees, covering their official visits abroad provided they are undertaken on behalf of their employers.
- Age Limit:
  - For adults up to 70 years

- Cover beyond 70 years is permissible at extra premium.
- Children between the ages of 6 months to 5 years are covered by excluding certain specific children diseases.

These policies may also give ADDITIONAL Add-on benefits like:-

- Personal Accident in the foreign country
- Flight delays beyond 6 hours
- Loss of checked in Baggage
- Delay of checked in Baggage
- Loss of passport
- Personal Liability arising out of any accident.
- Premium depends on the Age-band, Trip-band and Country of visits. Initially cover up to 180 days is provided under Business & Holiday Plan .Extension is allowed on original policy for further period of 180 days subject to declaration of good health.

g. Senior Citizen Medi claim Policy

This insurance policy is for senior citizens. Any senior citizen resident in India and aged between 60 and 80 can buy this policy. If renewed without a break, the cover can be continued up to age 90.

The Proposers must undergo a prescribed pre-acceptance health check at their own cost to identify pre- existing diseases. The health check may be waived if the proposer is already having Medi claim insurance in continuity with the insurance company. This policy covers:

- Hospitalization expenses incurred for the treatment of illness/injury.
- Pre- and post-hospitalization expenses up to 30 and 60 days respectively.
- Ambulance Charges.
- Limited cover for hospitalizations in government and /or registered Ayurvedic /Homeopathic and Unani hospitals.
- Pre-existing diseases are covered only after 18 months of continuous insurance with the insurance Company. Pre-existing conditions like Hypertension, Diabetes mellitus and its complications are covered after 18 months of continuous insurance but only on payment of additional premium.

There are many new products and policies introduced by various insurance companies which offer additional “benefits”. These types of products, offer lump sum payments like on undergoing a specified surgery (Surgical Cash Benefit), or the Hospital Cash Supplementary policy which gives a lump sum or a daily allowance which can be used for medical and non-medical expenses you incur during hospitalization

5.8 Theft & Burglary Insurance

A. Difference between Burglary and Theft

Theft is the unlawful taking of property of another: the term includes such crimes as burglary, larceny and robbery.

Burglary is a theft committed by breaking into or out of the premises. Evidence of breaking in, is necessary.

Thus Burglary is a specific type of Theft. The basic premise is the same. The person carrying out theft or Burglary forcefully or unlawfully takes the property that lawfully belongs to someone else.

B. Burglary and Theft Insurance

Theft Insurance Contract covers losses from burglary, robbery and other forms of theft.

These policies generally provide for indemnity against loss of both business assets and personal assets of the Insurer.

Theft and Burglary Insurance Policies, in case of Business Assets, provide for coverage of property contained in business premises, stocks owned or held in trust/ commission. It can be further extended to cover cash, valuables, securities kept in locked safe or cash box in locked steel cupboard.

C. Losses covered under Burglary and Theft Insurance

Theft Insurance generally provides coverage for the following occurrences:

- Loss or damage to the Insured Property due to burglary and/or housebreaking
- Damage to premises caused by burglars during burglary or attempts of burglary.
- The policy can be extended to cover riot, strike, malicious damage and theft.

D. Exclusions from the Policy

The theft insurance policy would generally not cover the following losses/damages:

- Acts involving the family members or employees of the Insured
- Due to war perils, riot & strike, natural calamities and nuclear perils.
- For items stolen from a safe using a key or duplicate key unless it is obtained by violence or threat.

This list is not exhaustive. However some of the risks mentioned above may be covered by payment of additional premium.

E. Extent of Indemnity

The extent of loss compensated under this policy would be as follows:

- Actual loss / damage to the insured property caused by burglary and housebreaking.
- If the sum assured is not adequate the policy pays only the proportionate loss.

5.9 Procedure for taking Fire Insurance Policy

A person desirous of taking a Fire Insurance Policy should follow the following steps:

A. Selection of Company

As a first step the fire insurance company with which the insurance is to be effected must be identified.

B. Proposal Form

Once the Insurance Company has been selected the next step is to fill the proposal form which forms the basis of the contract.

- The proposal Form would require the following details to be filled up:
- Name and Address of the Proposer
- Nature of Business
- Details of Asset to be Insured
- Type of Fire Insurance Policy i.e. Specific Policy, Comprehensive Policy, Valued Policy
- Current Market Value of the Asset
- Amount for which the Insurance is to be taken.

C. Evidence of Credibility

The Insurance Company may check the credentials of the proposer to establish his credibility and ensure that he has not been involved in any unscrupulous activity.

D. Survey of the Property

The next step in Fire Insurance is to take the survey of the property proposed to be insured by qualified experts known as Surveyors.

The Surveyors are to inspect the property carefully and to estimate the degree of risk involved. It is on this basis of the Surveyor's Report that the Insurance Company accepts or rejects the proposal. In case the proposal is accepted the rate of premium is quoted.

E. Acceptance of Proposal Form

On the basis of the proposal and the Surveyor's Report the Insurance Company would accept or reject the proposal.

F. Commencement of Risk

The next step is to pay premium. Once the premium is paid the coverage of risk would commence.

G. Cover Note

The Insurance Company may accept risk unconditionally or subject to certain conditions and may give provisional protection to the Insured by a document known as Cover Note.

H. Policy

The final step is to issue the Fire Insurance Policy.

5.10 Procedure for taking Marine Insurance Policy

The following steps are involved in taking a Marine Insurance Policy:

- Submission of form
- Quotation from the Insurance Company
- Payment of Premium
- Issue of cover note/Policy

A. Submission of form

The form will have the following information:

a. Name of the shipper or consignor (the insured).

b. Full description of goods to be insured: The nature of the commodity to be insured is important for rating and underwriting. Different types of commodities are susceptible for different types of damage during transit- sugar, cement, etc are easily damaged by seawater; cotton is liable to catch fire; liquid cargoes are susceptible to the risk of leakage and crockery, glassware to breakage; electronic items are exposed to the risk of theft, and so on.

c. Method and type of packing: The possibility of loss or damage depends on this factor. Generally, goods are packed in bales or bags, cases or bundles, crates, drums or barrels, loose packing, paper or cardboard cartons, or in bulk etc.

d. Voyage and Mode of Transit: Information will be required on the following points :

- the name of the place from where transit will commence and the name of the place where it is to terminate
- mode of conveyance to be used in transporting goods, (i.e.) whether by rail, lorry, air, etc., or a combination of two or more of these. The name of the vessel is to be given when an overseas voyage is involved. In land transit by rail, lorry or air, the

number of the consignment note and the date thereof should be furnished. The postal receipt number and date thereof is required in case of goods sent by registered post

- If a voyage is likely to involve a trans-shipment it enhances the risk. This fact should be informed while seeking insurance. Trans-shipment means the change of carrier during the voyage.

e. **Risk Cover required:** The risks against which insurance cover is required should be stated. The details of risks are discussed subsequently in this chapter.

B. Quotation by insurance company

Based on the information provided as above, the insurance company will quote the premium rate. In nutshell, the rates of premium depend upon:

- Nature of commodity
- Method of packing
- The Vessel
- Type of insurance policy

C. Payment of premium:

On accepting the premium rates, the concerned person will make the payment to the insurance company. The payment can be made on the consignment basis.

D. Issue of cover note /Policy document:

a. **Cover Note:** A cover note is a document granting cover provisionally pending the issue of a regular policy. It happens frequently that all the details required for the purpose of issuing a policy are not available. For instance, the name of the steamer, the number and date of the railway receipt, the number of packages involved in transit, etc., may not be known.

b. **Marine Policy:** This is a document which is an evidence of the contract of marine insurance. It contains the individual details such as name of the insured, details of goods etc. These have been identified earlier. The policy makes specific reference to the risks covered.

Glossary

Accident - An unforeseen, unintended event.

Agent - A person who sells insurance policies.

Annuitant - A person who receives the payments from an annuity during his or her lifetime.

Annuity - A contract in which the buyer deposits money with a life insurance company for investment. The contract provides for specific payments to be made at regular intervals for a fixed period or for life.

Annuity certain - An annuity that provides a benefit amount payable for a specified period of time regardless of whether the annuitant lives or dies.

Annuity period - The time span between the benefit payments made under an annuity contract.

Application - A form to be filled out with personal information that an insurance company will use to decide whether to issue a policy and how much to charge

Beneficiary - The person, people, or entity designated to receive the death benefits from a life insurance policy or annuity contract.

Cancellation - Termination of an insurance policy by the company or insured before the renewal date.

Cash surrender option – Non-forfeiture option that specifies the policy owner can cancel the coverage and receive the entire net cash value in a lump sum.

Cash value - The amount of money the life insurance policy owner will receive as a refund if the policy owner cancels the coverage and returns the policy to the company. Also called "cash surrender value."

Certificates of coverage - Printed material showing members of a group health benefit plan the benefits provided by the group master policy.

Churning - This can occur when an agent persuades a consumer to borrow against an existing life insurance policy to pay the premium on a new one.

Claim - A policyholder's request for reimbursement from an insurance company under a home insurance policy for a loss to property.

Claimant - A person who makes an insurance claim.

Complaint - A written communication primarily expressing a grievance against an insurance company or agent.

Complaint history - Information collected or maintained by the Texas Department of Insurance (TDI) relating to the number of complaints received against a particular insurer, agent, or premium finance company and the disposition of the complaints.

Comprehensive coverage (physical damage other than collision) - Pays for damage to or loss of your automobile from causes other than accidents. These include hail, vandalism, flood, fire, and theft.

Conditional receipt - A premium receipt given to an applicant that makes a life and health insurance policy effective only if or when a specified condition is met.

Contestable period - A period of up to two years during which a life insurance company may deny payment of a claim because of suicide or a material misrepresentation on an application.

Contingent beneficiary - Another party or parties who will receive the life insurance proceeds if the primary beneficiary should predecease the person whose life is insured.

Contract - In most cases, an insurance policy. A policy is considered to be a contract between the insurance company and the policyholder.

Conversion privilege - The right to change (convert) insurance coverage from one type of policy to another. For example the right to change from an individual term insurance policy to an individual whole life insurance policy

Death benefit - Amount paid to the beneficiary upon the death of the insured.

Deferred annuity - An annuity under which the annuity payment period is scheduled to begin at some future pre decided date/year/period.

Declarations page - The page in a policy that shows the name and address of the insurer, the period of time a policy is in force, the amount of the premium, and the amount of coverage.

Effective date - The date on which an insurance policy becomes effective.

Expiration date - The date on which an insurance policy expires.

Extended term insurance option - A policy provision that provides the option of continuing the existing amount of insurance as term insurance for as long a period of time as the contract's cash value will purchase.

Grace period(s) - The time - usually 31 days - during which a policy remains in force after the premium is due but not paid. The policy lapses as of the day the premium was

originally due unless the premium is paid before the end of the 31 days or the insured dies.

Grievance procedure - The required appeal process an HMO provides for you to protest a decision regarding medical necessity or claim payment. Insurance companies also may have grievance procedures.

Indemnity plan - A health plan that allows you to go to any physician or provider you choose, but requires that you pay for the services yourself and file claims for reimbursement. (Also known as fee-for-service.)

Insurable interest - Any financial interest a person has in the property or person insured. In life insurance, a person´s or party´s interest - financial or emotional - in the continuing life of the insured.

Insured - The person or organization covered by an insurance policy.

Insurer - The insurance company.

Lapse - The termination of an insurance policy because a renewal premium is not paid by the end of the grace period.

Liability - Responsibility to another for one´s negligence that results in injury or damage.

Loss - The amount an insurance company pays on a claim.

Paid-up - This event occurs when a life insurance policy will not require any further premiums to keep the coverage in force.

Paid-up additions - Additional amounts of life insurance purchased using dividends; these insurance amounts require no further premium payments.

Peril - A specific risk or cause of loss covered by a property insurance policy, such as a fire, windstorm, flood, or theft. A named-peril policy covers the policyholder only for the risks named in the policy. An all-risk policy covers all causes of loss except those specifically excluded.

Personal property - All tangible property (other than land) that is either temporary or movable in some way, such as furniture, jewelry, electronics, etc.

Policy - The contract issued by the insurance company to the insured.

Policy loan - An advance made by a life insurance company to a policy owner. The advance is secured by the cash value of the policy.

Policy owner - The person or party who owns an individual insurance policy. This person may be the insured, the beneficiary, or another person. The policy owner usually

is the one who pays the premium and is the only person who may make changes to a policy.

Policy period - The period a policy is in force, from the beginning or effective date to the expiration date.

Premium - The amount paid by an insured to an insurance company to obtain or maintain an insurance policy.

Premium load - An amount deducted from each life insurance premium payment, which reduces the amount credited to the policy.

Rated policy - A policy issued at a higher premium to cover a person classified as a greater-than-average risk, usually due to impaired health or a dangerous occupation.

Refund - An amount of money returned to the policyholder for overpayment of premium or if the policyholder is due unearned premium.

Reinstatement - The process by which a life insurance company puts a policy back in force after it lapsed because of nonpayment of renewal premiums.

Renewal - Continuation of a policy after its expiration date.

Underwriter - The person who reviews an application for insurance and decides if the applicant is acceptable and at what premium rate.

Underwriting - The process an insurance company uses to decide whether to accept or reject an application for a policy.

5.11. Summary

- Such contracts of Insurance that do not come within the ambit of Life Insurance are called General Insurance or Non Life Insurance Contracts.

- Some of the risks that are covered under General Insurance are as follows:
    - Damage to property due to fire, theft etc.
    - Injury to a person due to Accident.
    - Illness of a person
    - Legal liabilities arising out of claims made by third parties.
    - Losses arising dues to credits given by parties

- Various types of General Insurance are:

    - Fire Insurance

- Marine Insurance
- Motor Vehicle Insurance
- Health Insurance
- Personal Accident Insurance
- Burglary or theft insurance

5.12.Key Words

- Specific Policy
- Valued Policy
- Floating Policy
- Comprehensive Policy
- Third Party Policy
- Indemnity

5.13. Self Assessment Questions

A. Fill up the Blanks

a. Fire Insurance is an Insurance wherein the Insurer covers the loss incurred by the Insured due to destruction of ________ or ___________ caused by fire.

b. Marine Insurance is an Insurance against loss or damage or destruction of ___________, _______________, _______________ during transportation.

c. Burglary is a theft committed by ___________ into or out of premises.

d. A cover note is a document granting cover ____________ pending the issue of a regular policy

e. Annuity contract provides for specific payments to be made at _______ ________ for a fixed period or for life.

Answer Keys: a) Property, Goods b) Cargo, Freight, Merchandise c) breaking d) provisionally e) regular intervals

B. **True or False**

a. Marine Insurance provides cover for such losses to goods that are caused by transportation of the same by sea only. State whether this statement is:

Correct/ Incorrect

b. Like all insurances, motor vehicle insurance is to be taken voluntarily and any type of such insurance is not mandatory by law. State whether this statement is

Correct/ Incorrect

c. The amount payable under Fire Insurance would be the amount mentioned in the Insurance Policy irrespective of the Loss incurred by the Insured. State whether this statement is

Correct/ Incorrect

d. Claims under Fire Insurance are not admissible if the fire is caused by wilful act of the Insured or someone acting in concert with him. State whether this statement is:

Correct/ Incorrect

e. Mediclaim Insurance Policies do not cover Ambulance charges. State whether this statement is :

Correct/ Incorrect

Answer Key : a. Incorrect b. Incorrect c. Incorrect e. Correct d. Incorrect

C. **Match the Following**

S.No	**Section A**	**Section B**
1	Marine Insurance	Family
2	Floater Health Policy	Injury

3	Personal Accident Policy	Motor Vehicle
4	General Insurance	Cargo
5	Third Party Insurance	Non Life

Answer Key

Section A	**Section B**
1	4
2	1
3	2
4	5
5	3

D. Choose the Correct Option

a. Under Third Party Insurance in reference to Motor Vehicle Insurance in respect of damage to any property of third party the amount of compensation is limited to Rs __________.

6,000 ; 7500 ; 11,000 ; 20,0000

b. In respect of Annual Policy under Marine Insurance the sum insured should not be less than _____________

10,000; 1,00,000; 5,000; 20,000

c. Under a comprehensive motor insurance policy apart from the coverage of Third Party Liability (as provided in the mandatory policy) ___________ risks are also covered

Fire, theft , fire & theft , various other

d. Personal Accident Policy does not cover death or injury due to _________

Murder; Suicide ; Homicide; Illness or disease.

e. The theft insurance policy would generally not cover the losses/ damages due to acts involving ___________ & employees of the insured.

Associates; Friends; Family Members, Nominees

Answer Key : a) 6000 b) 5,000 c) various other d) illness or disease e) family members

E. Answer the following briefly

a. Explain what is a Overseas Medical Policy

b. Explain what Health Insurance Policy is.

c. Explain what is Hull Insurance under Marine Insurance

d. Explain what is Floater Health Insurance Policy

F. Answer in Detail

a. Explain different types Fire Insurance

b. Explain different types of Marine Insurance