

CHAPTER 2

▶ **BANKING & INSURANCE**

INTRODUCTION

- Basic concepts:
- **Banking:** “Accepting for the purpose of lending & investment, of deposits of money from the public, repayable on demand, order or otherwise & withdrawable by cheque, draft or otherwise.”
- **Banker:** A person who accepts deposits, money on Current accounts, issue & pay cheques and collects cheques for his customers.
- **Customer:** Has an account and atleast perform a transaction of banking nature.
- **Banking Company:** Any company that transacts business of banking in india.

FEATURES OF BANKING

- Dealing in Money
- Act as an Agent
- Credit Creation
- Commercial Nature
- Withdrawable Deposit

Credit creation

Bank	A (VIJAYA)	B (RAJ KUMAR)	C VINAY	D CONSOL I	A
Deposit	100 (SINGLE)	80 50	64	51.2	40.96
Reserve 20% 50	20	16	12.8	10.24	8
Investible fund	80	64	51.2	40.96	32
LENDIN G	MAHIND RA LTD	VINAY	4 PEOPLE	LOAN	

SCOPE OF BANKING

- ❑ Borrowing or raising money
- ❑ Dealing in bills of exchange, hundies, drafts etc.
- ❑ Services related to railway receipts (acknowledgement of goods received by the railway), warrants (security that gives right to buy but not the obligation to buy the underlying stock at fixed price until the expiry date), debentures and other securities, underwriting etc.
- ❑ Letter of credit (guarantee by the buyers bank to the seller), travellers cheque, circular notes ()
- ❑ Safe deposit vaults, locker facility
- ❑ Agent to the government, agent to the customer for collection and payments of bills.
- ❑ Tele banking, e-banking, ATM etc.

INSURANCE

❑ Definition:

- ❑ D.S.Hansell “As a social device providing financial compensation for the effects of misfortune, the payments being made from the accumulated contributions of all parties participating in the schemes.”

In financial sense

- ▶ It is a social device in which
 - ❑ a group of individuals (insured)
 - ❑ transfer risk to another party (insurer)
 - ❑ in order to combine loss experienced, which
 - permits statistical prediction of losses and
 - provides for payment of losses from funds contributed (premium) by all members who transferred risk

OBJECTIVES OF INSURANCE

- ❑ Risk Sharing: by all the policy holders.
- ❑ Cooperative device: as a group of persons agree to share the risk and as a cooperative device no compulsion on purchasing an insurance.
- ❑ Saving device: claim in a life insurance is confirmed.
- ❑ Economic security: monetary compensation.
- ❑ Economic development: capital formation.

IMPORTANCE OF INSURANCE

- ❑ Provides protection against occurrence of uncertain events.
- ❑ Device for eliminating risks and sharing losses.
- ❑ Co-operative method of spreading risks.
- ❑ Facilitates international trade.
- ❑ Serves as an agency of capital formation.
- ❑ Financial support.
- ❑ Medical support.
- ❑ Source of employment.

INSURANCE ACT 1938

- ❑ The Insurance Act of 1938 was the first legislation governing all forms of insurance to provide strict state control over insurance business
- ❑ Purpose:- to safe guard the interest of insured, setting the norms for carrying out the business of insurance smoothly, Minimizing disputes
- ❑ Short title, extent and commencement.
 - (1)) This Act may be called Insurance Act, 1938.
 - (2) It extends to the whole of India.
 - (3) It shall come into force on such date as the Central Government may, by Notification in the Official Gazette, appoint in this behalf.

RESTRICTIONS

- ▶ Prohibition of transaction of insurance business by certain persons.
- ▶ Provided, no person shall, after the commencement of the Insurance (Amendment) Act, 1950 (47 of 1950), begin to carry on any class of insurance business in India and no insurer carrying on any class of insurance business in India shall after the expiry of one year from such commencement, continue to carry on any such business unless he is-
 - ▶ (a) a public company, or
 - ▶ (b) a society registered under the Co-operative Societies Act, 1912 (2 of 1912), or under any other law for the time being in force in any State relating to co-operative societies, or
 - ▶ (c) a body corporate incorporated under the law of any country outside India not being of the nature of a private company:

LAW ALSO EMPHASISES

- Restriction of commission and prohibition of rebating.
- Limitation of expenditure on commission.
- Investment
- Right to investigate
- Prohibition of loan

RECOMMENDATIONS OF MALHOTRA COMMITTEE (1994)

- ❑ Govt. stake to be brought down to 50%
- ❑ Govt should take over GIC and its subsidiaries.
- ❑ Greater freedom to be given to operate.
- ❑ COMPETITION
 - ▶ Entry in insurance to private companies with minimum paid up capital of 1 billion.
 - ▶ Either life or non life only by single entity.
 - ▶ Foreign collaboration be allowed.
 - ▶ only one state level Life insurance co in each state.
 - ▶ Set up Insurance regulatory Authority on the lines of SEBI
- ❑ Overall improve customer service.

RECOMMENDATIONS OF MALHOTRA COMMITTEE (1994)

- ❑ INVESTMENT
 - ❑ MANDATORY INVESTMENT OF LIC IN GOV. securities be reduced to 50% from 75%
 - ❑ GIC not to hold more than 5% in any co.
- ❑ Customer service
 - ❑ Pay interest for delays beyond 30 days
 - ❑ Computerization