What is insurance?

We can define insurance as follows:

Insurance is a contract between the insurance company (insurer) and the policyholder (insured). In return for a consideration (the premium), the insurance company promises to pay a specified amount to the insured on the
happening of a specific event.

The need for insurance

- Life insurance provides protection to a family on the untimely death of the income provider.
- The insurance money will help to take care of the family's living expenses, education and marriage, and the costof the home loan etc.

How does insurance work?

- Insurance, is nothing but a risk transfer mechanism wherein the person taking out insurance transfers their risk to the insurance company in return for a payment (known as the premium). ONE

  can take out insurance, pay the premium and transfer his risks to the insurance company.

So, from the above explanation we can see that insurance is:

- • the process of transferring the risk from the owner (insured person)
- • to another party (insurer) who can bear that risk
- • in return for a consideration (premium).

- **Be aware**

- Insurance cannot prevent the insured event from happening. It can only provide compensation for the loss that comes as a result of the insured event happening.

Role of financial services and insurance

Investment option

Insurance products are an excellent investment option where the policyholder not only gets the advantage of insurance cover, but also a return on their investments based on their risk appetite.

Protection of financial Security

Insurance companies provide compensation in case something happens to the assets or the individual insured, as per the terms and conditions of the policy. Life insurance protects the family against the loss of the income provider, helping to provide for the family's needs and the children's.

- **Tax benefits**

Insurance offers considerable tax benefits under the Income Tax Act 1961. Premium paid up to Rs. 1,00,000 qualifies for deduction from taxable income under Section 80C of the Act,

subject to certain terms and conditions. The death benefit or the maturity benefit received by the nominee or the policyholder is tax-free under Section 10 (10D) of the Act, as per prevailing laws, before premium paid up to Rs. 1,00,000.

- **Planning for life stage needs**

Today the insurance products that are being offered by insurance companies are designed to suit the needs of individuals in different age groups. This allows individuals to invest in insurance policies to meet their various and changing priorities.

Others benefits

- **Develops the habit of saving**
- **Loan against insurance policy**
- **Releases capital and management**

Benefits of a professional insurance market

- **Needs-based selling**

A professional market ensures that the customer gets what they are looking for rather than what the company wishes to sell them. This is called ‘**needs-based selling**’.

An insurance market that operates in this professional way will bring many benefits to its customers, itself, society and the wider economy:

- Higher confidence among policyholders
- Increase in insurance Penetration
- Social benefits
- Employment generation
- Increase in profits
- for the insurancecompany

History of insurance

- The history of insurance in India can be divided into three phases as follows:

- Phase I – Pre-liberalisation
- Phase II – Liberalisation
- Phase III – Post-liberalisation

Phase I – Pre-liberalisation

- **First insurance company**: in 1818 the Oriental Life Insurance Company in Kolkata
- Following the enactment of the **British Insurance Act 1870**
- The **Indian Life Assurance Companies Act 1912**
- The **Indian Insurance Companies Act 1928**
- **Insurance Act 1938**
- The **General Insurance Business (Nationalisation) Act 1972**

Phase II – Liberalisation

- **Malhotra Committee**: in 1993 the Government set up a committee under the chairmanship of R N Malhotra, the former Governor of RBI, to make recommendations for the reform of the insurance sector.In its report in 1994, the committee recommended, among other things, that the private sector and foreign companies (but only through a joint venture with an Indian partner) be permitted to enter the insurance industry.
- **Formation of the IRDA** The IRDA was incorporated as a statutory body in April 2000.

Phase III – Post-liberalisation

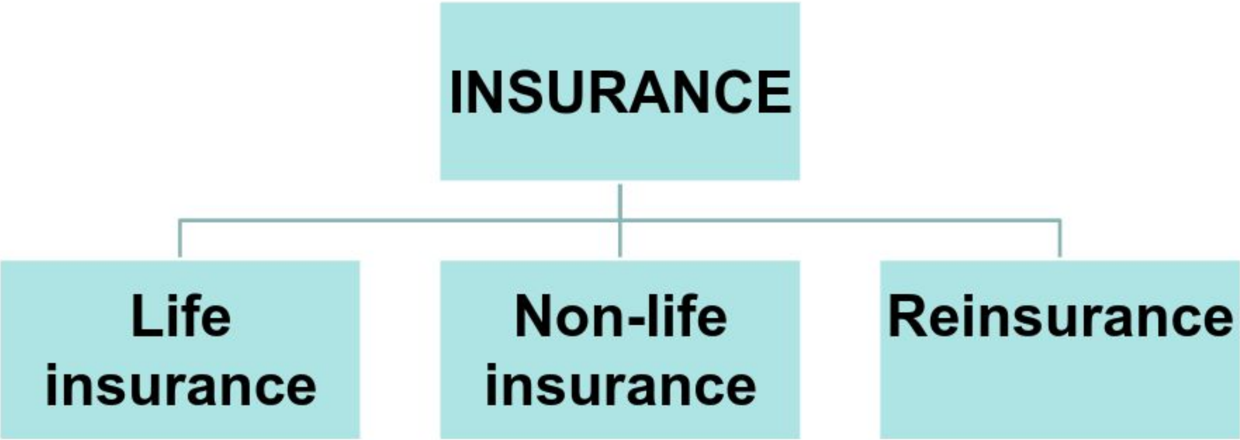
- recommendations of the Malhotra Committee, **the insurance sector was opened to private companies**. Foreign companies were also allowed to participate in the Indian insurance market through joint ventures (JVs) with Indian companies. Under current regulations the foreign partner cannot hold more than a 26% stake in the joint venture.The key objectives of the IRDA include the promotion of competition ,view to increasing customer satisfaction through more consumer choice and lower premiums.
- Since 2000 it has introduced various regulations ranging from the registration of companies for carrying on insurance business to the protection of policyholders' interests.
- With the **General Insurance Business (Nationalisation) Amendment Act 2002**, effective from 21 March 2003, GIC ceased to be a holding company of its four subsidiaries. Their ownership was vested with the Government of India. GIC was notified as a reinsurance company.

Recent developments in the insurance industry

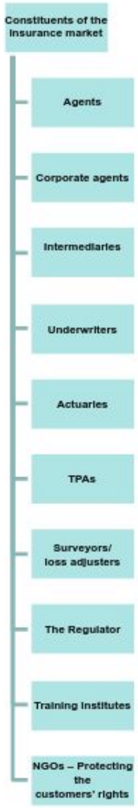
- Growing importance of IT
- Bancassurance
- Online sales
- Micro-insurance
- Grievance redressal

Insurance organisations and roles

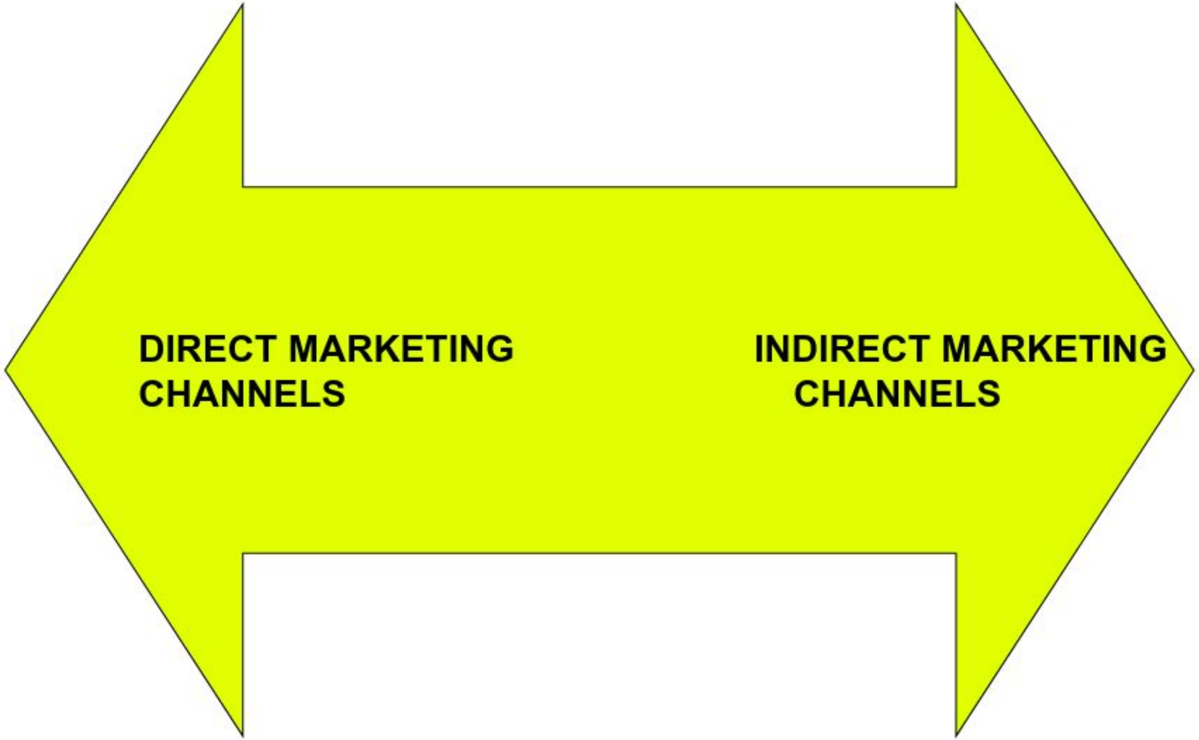
- **Types of insurance organisation**



Roles in the insurance industry



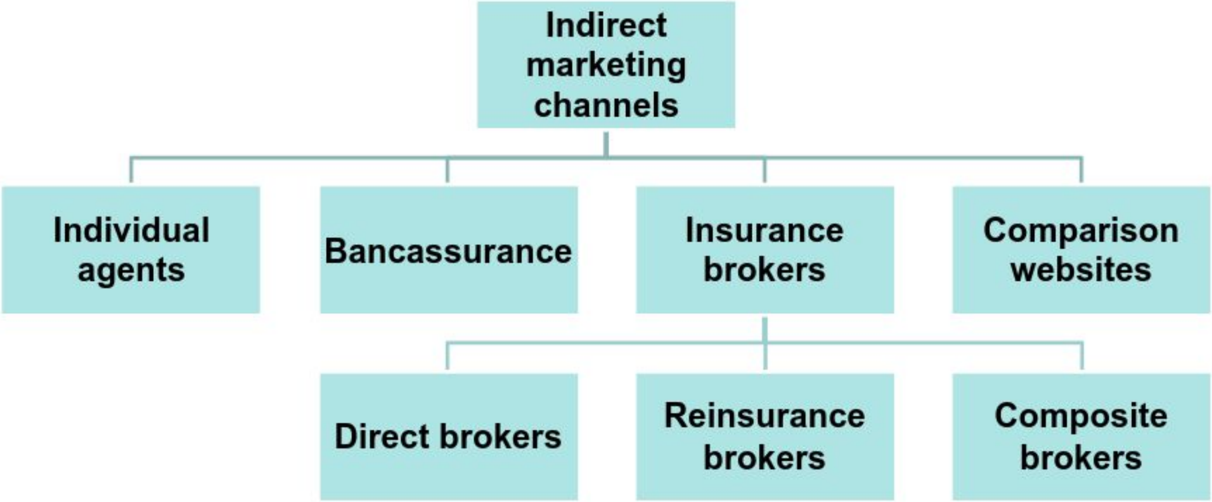
Insurance distribution



Direct marketing channels

- A direct marketing channel may involve a sales force employed by the insurer and will certainly include the activities of the insurer's full-time staff based in the office.
- E-sales refer to sales of insurance products through the internet. This channel for the sale of insurance products is relatively new in India,

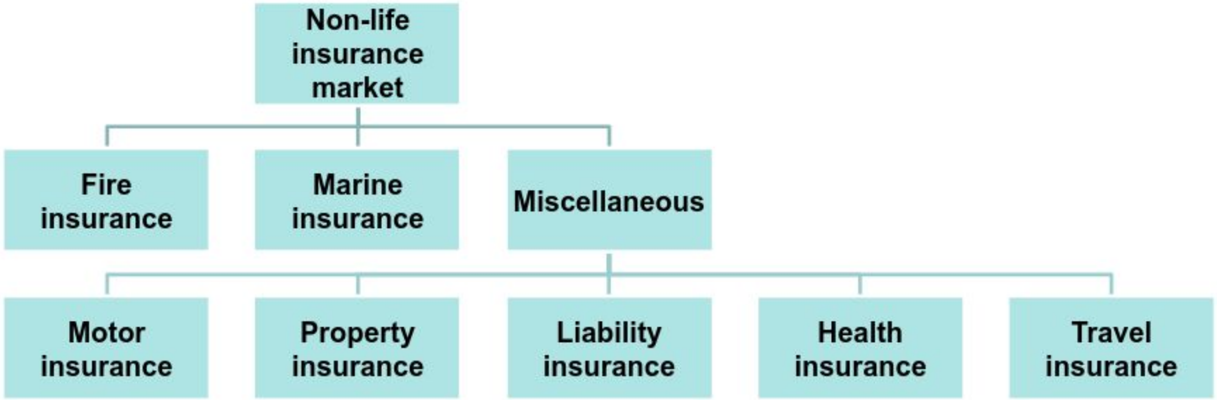
Indirect marketing channels



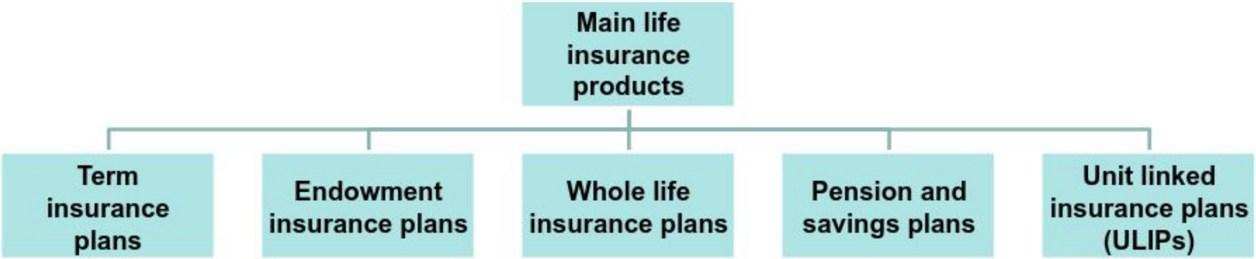
Insurance products

- Non-life insurance market
- Life insurance market

Non-life insurance market



Life insurance market



Role and functions of an agent

- **Becoming an agent**

  There are a number of steps that you as an individual need to take and a number of criteria that you will needto fulfil if you wish to become a life insurance agent.

- **Role of an agent**

  Their role is to recommend to clients the right products that address the clients' needs.

- Code of Conduct specified by the IRDA in the **Insurance Regulatory and Development Authority (Licensing of Insurance Agents) Regulations 2000** as per Regulation 8.

Insurance companies active in India (January 2011)

- Life insurance companies in India

  23 COMPANIES

  General insurance companies in India

  24 COMPANIES

A. Primary Functions of Banks ↓

The primary functions of a bank are also known as banking functions. They are the main functions of a bank.

These primary functions of banks are explained below.

1. Accepting Deposits

The bank collects deposits from the public. These deposits can be of different types, such as :-

1. Saving Deposits
2. Fixed Deposits
3. Current Deposits
4. Recurring Deposits

a. Saving Deposits

This type of deposits encourages saving habit among the public. The rate of interest is low. At present it is about 4% p.a. Withdrawals of deposits are allowed subject to certain restrictions. This account is suitable to salary and wage earners. This account can be opened in single name or in joint names.

b. Fixed Deposits

Lump sum amount is deposited at one time for a specific period. Higher rate of

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- How To Prepare For Successful Job Interviews ? Best Interview Tips
- How To Summarize Passage ? Summarization Skills Techniques
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- Indian Money Market - Features, Drawbacks and Recent Reforms

Scroll Top

b. Fixed Deposits

Lump sum amount is deposited at one time for a specific period. Higher rate of interest is paid, which varies with the period of deposit. Withdrawals are not allowed before the expiry of the period. Those who have surplus funds go for fixed deposit.

c. Current Deposits

This type of account is operated by businessmen. Withdrawals are freely allowed. No interest is paid. In fact, there are service charges. The account holders can get the benefit of overdraft facility.

d. Recurring Deposits

This type of account is operated by salaried persons and petty traders. A certain sum of money is periodically deposited into the bank. Withdrawals are permitted only after the expiry of certain period. A higher rate of interest is paid.

2. Granting of Loans and Advances

The bank advances loans to the business community and other members of the public. The rate charged is higher than what it pays on deposits. The difference in the interest rates (lending rate and the deposit rate) is its profit.

The types of bank loans and advances are :-

- What is Finance? Meaning Definition Features of Finance
- What is Financial Planning? Meaning Types of Financial Plans
- What is Financial Management? Meaning Definition Scope Articles
- What is Corporate Finance? Meaning - What it Includes?

BANKING

- What is a Bank ? Introduction, Definition and Features of Bank
- Different Types of Banks - What are Various Kinds of Banks ?
- Commercial Banks - Definitions, Primary Secondary Functions
- Balance Sheet of Commercial Bank - Liabilities and Assets
- How to Open Bank Account ? 7 Steps To Open Bank Account
- What are the Advantages of Opening Bank Account ?
- Saving Account Bank - Meaning, Features and Advantages of It
- Fixed Deposit Account of Bank -

- Examples of Insurance Principles
- Indian Money Market - Features, Drawbacks and Recent Reforms
- Concept of Marketing Research (MR) Marketing Research Process

MANAGEMENT

- Management Functions And Process, Management Thought
- Planning First Primary Important Function Of Management
- Management By Objectives (MBO) - Peter Drucker MBO
- Decision Making Process In Management - Problem Solving
- Authority, Responsibility and Accountability In Management
- Principle of Delegation of Authority - Importance of Delegation
- Organisation - Organizational Structure - Organisational Chart
- Decentralisation Advantages and Limitations of Decentralization
- Managerial Leadership - Leader Qualities - Leadership Theories
- Human Resource Management -

Scroll Top

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The types of bank loans and advances are :-

1. Overdraft
2. Cash Credits
3. Loans
4. Discounting of Bill of Exchange

a. Overdraft

This type of advances are given to current account holders. No separate account is maintained. All entries are made in the current account. A certain amount is sanctioned as overdraft which can be withdrawn within a certain period of time say three months or so. Interest is charged on actual amount withdrawn. An overdraft facility is granted against a collateral security. It is sanctioned to businessman and firms.

b. Cash Credits

The client is allowed cash credit upto a specific limit fixed in advance. It can be given to current account holders as well as to others who do not have an account with bank. Separate cash credit account is maintained. Interest is

 s given

Balance Sheet of Commercial Bank - Liabilities and Assets
How to Open Bank Account ? 7 Steps To Open Bank Account
What are the Advantages of Opening Bank Account ?
Saving Account Bank - Meaning, Features and Advantages of It
Fixed Deposit Account of Bank - Meaning, Features, Advantages
What is Current Bank Account ? Its Features and Advantages
Recurring Deposit Account In Bank - Meaning and Features
What is a Cheque ? Definition - Kinds and Types of Cheques
What are Features of Cheques ? Main Characteristics of Checks
What is Crossing of Cheque ? Different Types of Check Crossing
Automated Teller Machine (ATM) - The Advantages of ATM Machine
E-Banking - Online Banking - Main Advantages of E-Banking
Principles of Good Lending Every Banker Follows - Loans
Different Forms of Advances by Commercial Banks - Loan Types
Duties and Responsibilities of
Principle of Delegation of Authority - Importance of Delegation
Organisation - Organizational Structure - Organisational Chart
Decentralisation Advantages and Limitations of Decentralization
Managerial Leadership - Leader Qualities - Leadership Theories
Human Resource Management - Human Resource Development
Motivation Motivational Factors Incentives Theories of Motivation
Maslow's Hierarchy of Needs - The Theory of Human Motivation
Frederick Herzberg's Two Factor Theory - Motivation Hygiene Factors
Douglas McGregor's Theory X and Theory Y - Employee Motivation
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Quality Control Total Quality Management TQM Quality Circles
Scroll Top

b. Cash Credits

The client is allowed cash credit upto a specific limit fixed in advance. It can be given to current account holders as well as to others who do not have an account with bank. Separate cash credit account is maintained. Interest is charged on the amount withdrawn in excess of limit. The cash credit is given against the security of tangible assets and / or guarantees. The advance is given for a longer period and a larger amount of loan is sanctioned than that of overdraft.

c. Loans

It is normally for short term say a period of one year or medium term say a period of five years. Now-a-days, banks do lend money for long term. Repayment of money can be in the form of installments spread over a period of time or in a lumpsum amount. Interest is charged on the actual amount sanctioned, whether withdrawn or not. The rate of interest may be slightly lower than what is charged on overdrafts and cash credits. Loans are normally secured against tangible assets of the company.

d. Discounting of Bill of Exchange

The bank can advance money by discounting or by purchasing bills of exchange both domestic and foreign bills. The bank pays the bill amount to the drawer or the beneficiary of the bill by deducting usual discount charges. On maturity, the bill is presented to the drawee or acceptor of the bill and the amount is collected.

- E-Banking - Online Banking - Main Advantages of E-Banking
- Principles of Good Lending Every Banker Follows - Loans
- Different Forms of Advances by Commercial Banks - Loan Types
- Duties and Responsibilities of Computer Operator in Bank
- Nationalisation of Banks in India - Introduction Objectives Demerits
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Scroll Top

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B. Secondary Functions of Banks ↓

The bank performs a number of secondary functions, also called as non-banking functions.

These important secondary functions of banks are explained below.

1. Agency Functions

The bank acts as an agent of its customers. The bank performs a number of agency functions which includes :-

1. Transfer of Funds
2. Collection of Cheques
3. Periodic Payments
4. Portfolio Management
5. Periodic Collections
6. Other Agency Functions

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Education
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Scroll Top

a. Transfer of Funds

The bank transfer funds from one branch to another or from one place to another.

b. Collection of Cheques

The bank collects the money of the cheques through clearing section of its customers. The bank also collects money of the bills of exchange.

c. Periodic Payments

On standing instructions of the client, the bank makes periodic payments in respect of electricity bills, rent, etc.

d. Portfolio Management

The banks also undertakes to purchase and sell the shares and debentures on behalf of the clients and accordingly debits or credits the account. This facility is called portfolio management.

e. Periodic Collections

The bank collects salary, pension, dividend and such other periodic collections on behalf of the client.

f. Other Agency Functions

f. Other Agency Functions

They act as trustees, executors, advisers and administrators on behalf of its clients. They act as representatives of clients to deal with other banks and institutions.

2. General Utility Functions

The bank also performs general utility functions, such as :-

1. Issue of Drafts, Letter of Credits, etc.
2. Locker Facility
3. Underwriting of Shares
4. Dealing in Foreign Exchange
5. Project Reports
6. Social Welfare Programmes
7. Other Utility Functions

a. Issue of Drafts and Letter of Credits

Banks issue drafts for transferring money from one place to another. It also issues letter of credit, especially in case of, import trade. It also issues travellers' cheques.

b. Locker Facility

b. Locker Facility

The bank provides a locker facility for the safe custody of valuable documents, gold ornaments and other valuables.

c. Underwriting of Shares

The bank underwrites shares and debentures through its merchant banking division.

d. Dealing in Foreign Exchange

The commercial banks are allowed by RBI to deal in foreign exchange.

e. Project Reports

The bank may also undertake to prepare project reports on behalf of its clients.

f. Social Welfare Programmes

It undertakes social welfare programmes, such as adult literacy programmes, public welfare campaigns, etc.

g. Other Utility Functions

It acts as a referee to financial standing of customers. It collects creditworthiness information about clients of its customers. It provides market