LESSON 9:

BANKING & INSURANCE (INCLUDING PENSION FUNDS)

9.0 Objective:

After reading this lesson, you will be able to understand .

- Concept of Banking & Insurance
- Merchant Banking Services
- Leasing Services
- Factoring Services etc. of Banks
- Principles of Insurance
- Life & Non-Life Insurances and
- Functioning of IRDA

Structure:

9.1 Banking

9.1.1 Introduction

Financial services are an essential segment of financial system. Financial system facilitates the transformation of savings of individuals, government as well as business into investment and consumption. It consists of financial intermediaries, financial markets and financial assets. A vibrant and competitive financial system is necessary to sustain reforms in the structural aspects of any economy financial system in India has made commendable progress in extending it's geographical spread and functional reach. Nationalization of commercial banks in 1969 gave a new direction to timely and adequate credit support for viable productive endeavour especially in agriculture and small sector.

In the changing economic scenario, with increase in financial deregulation and industrial liberalisation, the role of the financial sector is increasing manifold. The financial service sector has thus emerged as the fastest growing sunrise industry. With the one set of liberalisation process, several new institutions have appeared on the financial scene. These institutions like merchant banks, leasing companies, venture capital companies, factoring companies and mutual funds etc., have expanded the range of financial services available.

9.1.2 Financial Services on offer: -

Banks, investment companies, accounting firms, and financial institutions offer numerous financial services to business concerns. A few financial innovations / services which are emerging as potent instruments at the disposal of commercial banks and investment financing institutions in India are:

1. Merchant Banking
2. Leasing
3. Mutual Funds
4. Factoring
5. Credit Cards
6. Credit Rating
7. Commercial Paper
8. Housing Finance
9. Venture Capital

The banks and insurance companies are rendering all the above service either on their own or through subsidiaries and making very significant contributions. Let us now know about role of these institutions in these services in detail.

9.1.2.1 Merchant Banking Services: -

Merchant Bankers are financial intermediaries. They act as intermediaries in the process of transfer of capital from those who own it to those who use it. But they do this with a difference. The main strength of merchant bankers is not provision of finance but providing the whole range of inputs of innovative financial services, technical and managerial knowledge and competence and expert advice on legal and industrial matters needed by the user of funds for establishing a new industrial unit or for diversifying / modernizing a running industrial unit or for merger / acquiring another industrial unit or for merger / acquiring another industrial unit or for entering into a foreign collaboration / launching of a joint venture abroad.

Merchant banking business in India developed on the traditional European pattern and remained till recently as an adjunct to the main business of loan operations of Commercial / Development banks. Grindlays Bank was the first to open a Merchant Banking Division in 1967. After that many other institutions joined, notably the State Bank of India, Bank of Baroda and Canara Bank, ICICI and some of leading broking firms and financial consultants.

Merchant banking divisions of commercial banks have been active in a narrow range of traditional merchant banking activities akin to or arising out of their major commercial banking business. The availability of funds temporarily at lower cost attracts banks to act as manager to the new issues. The commercial banks are also engaged in underwriting business. They are also actively involved in arranging underwriting business. They are also actively involved in arranging Euro-currency loans and export finance. Some of them (notably the SBI) act as advisers to major borrowers during major foreign loan negotiations.

With a view to strengthening the organizational and managerial capabilities; broad base the resources position, enlarge the scope of operations and activities and to offer more specialised services with professional expertise, the erstwhile Merchant Banking Divisions of the nationalized banks have started forming independent subsidiary companies. The first of such subsidiary company was formed by State Bank of India known as SBI Capital Markets Ltd. followed by Bank of India (BOI) finance, Indian Bank-Ind Bank Finance; Canara Bank-Canfin; Punjab National Bank-PNB, CAPS: etc.

9.1.2.2 Leasing: -

Recently the tendency of the commercial banks and other financial institutions to act as leasing intermediaries and to dominate the lessors market is increasing dramatically. The important reason, perhaps is the ability of the financial institutions (because of their high profitability and relatively high tax brackets) to exploit the attractive tax concessions.

The modern concept of financial leasing was pioneered in India during the year 1973 by setting up of “First Leasing Company of India Limited” in Madras “Monopoly” for a period of six years. During the first six years the company had a business of Rs. 26 crores and gross profit of the company formed 93 percent of it’s total income.

With the entry of “Sundaram Finance Limited” into leasing business man other companies like MGF limited, Goodwill India limited, The New Indian Industries Ltd., etc., diversified their finance and hire purchase business by starting leasing activities. Several financial institutions also started taking keen interest in leasing operations.

Apart from the private leasing companies, the banks and financial institutions also started participating in the leasing business. With a view to encourage healthy growth of lease financing activity in India, RBI has issued policy guidelines in respect of the role of commercial banks in this regard.

The industrial Development Bank of India (IDBI) also entered the leasing venture in the year 1987-88. It sanctioned a sum of Rs. 14 crores towards the leasing business during that very particular year. This amount reached to Rs. 86 crores in the year 1988-89.

On November 1, 1987 the Industrial Finance corporation of India (IFCI) launched a new scheme for leasing and hire purchase concerns in the corporate and cooperative sectors.

On April 1, 1988 the commercial banks were also permitted to transact leasing business through their subsidiaries. Several commercial banks have decided to enter the field of leasing by promoting leasing subsidiaries or by making portfolio investment in existing or newly set up private leasing companies. The banks are in an advantageous position to recover lease rentals in time, which is not so in case of other leasing companies. The SBI, CANFIN and PNB CAPS have done a business of Rs.5564 lakh during the first year of their operations, (PNB Rs. 3703 lakhs, SBI Rs. 427 lakhs and CAN Rs. 1434 lakhs).

9.1.2.3 Mutual Funds: -

Mutual funds originated in the UK during the last century essentially as a means for mobilising household savings for housing finance. Now these are important elements in the development of capital markets world over.

Mutual funds is an ideal alternating for a small saver who is handicapped with inadequate resources for diversified portfolio, lack of time, expertise and market knowledge.

The first Mutual fund in India was established in 1964 by UTI, but the movement gained momentum only in 80's. Now the Indian money market is flooded with mutual funds catering to the needs of varied interests of savers. These includes SBI MF-Can Bank MF-LIC MF(Dhanasri – Dhanaraksha – Dhanarrithi) and Mutual funds of Bank of Baroda, Punjab National Bank and GIC Mutual funds. The Abid Hussain Committee recommended opening of mutual funds to the private sector in tune with the expertise of the Western countries. As a result, various mutual funds have been set up by the private sector which includes 20th Century Mutual Fund, Tata Mutual Fund, Birla Mutual Fund, JM Mutual Fund. Besides these foreign tie-ups for inland schemes like Alliance Capital Mutual Fund of USA and ICICI Mutual Fund with J.P Morgan Investment Management of USA etc. also look place. The enormous growth of mutual funds compelled growth of mutual funds compelled the government to issue guidelines under the set up of SEBI to regulate the same for their healthy growth on prudential norms.

With a view to provide an additional short-term avenue to investors and to bring money market instruments within the reach of individuals and small bodies, the RBI has proposed a scheme for a new type of Mutual funds by scheduled commercial banks and their subsidiaries. The new money market mutual funds are a special type of funds investing only in high quality money market instruments of a shot-term nature. In an increasingly tightening money market, the few existing MFs and nationalized banks-owned MFs are out-doing each other in offering higher discounts to gain the investor's attention towards their tax saving scheme. The Mutual funds are being governed by RBI and SEBI (MF) Regulation,1999. SEBI has revised its guidelines for money market investments by mutual funds to give it more flexibility.

9.1.2.4 Factoring: -

RBI constituted a study group in January 1988 to examine the feasibility of starting factoring organizations in India. RBI accepted its recommendations in principles in 1989. Vaghul Committee and Kalyana Sundaram Committee recommended for the introduction of factoring services in India. Factoring is a business activity where in the factor (a bank) purchases the receivables of the sellers of small scale and medium industries. The first factoring company in India was SBI Commercial & Factoring Services Ltd. (July 1991). Canbank factoring Ltd., was set up in August 1991 followed by PNB factoring ltd., with the introduction of factoring services it is expected that the commercial banks factoring services will be able to meet the requirements of the small scale sector and exports units in the country.

9.1.2.5 Credit Cards: -

Under Credit Card System credit is accommodated to the card-holders for a specific period of time without obtaining any security. The credit card service has been introduced as an integral part of better customer service and the bank is also able to make increased earnings by way of commission from dealers and interest on credit offered.

A credit card organization enters into an agreement with several establishments of the different parts of the country and even of other countries to provide goods and services to the credit card holders. This service also provides emergency cash facilities through banks or Automatic Teller Machine (ATM). The ATM facility is popular with the customers as All-Time Money facility Central Bank of India was the first bank in India to introduce credit card System in August 1980 and was followed by several other banks.

9.1.2.6 Credit Rating: -

Establishment of credit rating agencies forms an important step in the process of financial informs. In India four rating agencies have been set up so far. These are:

1. The Credit Rating Information Services of India Limited (CRISIL).
2. The Investment Information and Credit Rating Agency of India Limited (ICRA) and
3. The Credit Analysis and Research Ltd. (CARE) and Duff & Phelps Credit Rating (P) Ltd. (DPCR).

CRISIL was promoted in 1987 by the Industrial credit and Investment Corporation of India (ICICI) and Unit Trust of India (UTI). Other share holders include The Asian Development Bank (ADB), LIC, SBI, HDFC, GIC and 20 other banks. The ratings provide a guide to the investor. However, it is not a recommendation to invest or not to invest. CRISIL rates debentures, fixed deposit programmes, short term instruments like commercial paper, structural obligation and preference shares.

The ICRA has been promoted in 1991 by the Industrial Finance Corporation of India (IFCI), Life Insurance Corporation of India (LIC), SBI and 17 other banks. The primary objective of ICRA is to provide guidance to the investors/creditors in determining the credit risk associated with a debt instrument/credit obligation.

The ratings are not recommendations to buy or sell securities. The ICRA rates instruments including Debentures, Bonds, Preference Shares, fixed deposits and short term instruments like commercial papers etc.

The other two rating agencies (i.e., CARE and Duff and Phelps) are set up by IDBI and Commercial banks and Alliance Capital Ltd. and Duff and Phelps of U.S. respectively. In case of CRISIL, CARE and ICRA the role and contribution of banks and insurance companies is very significant.

9.1.2.7 Commercial Paper: -

Financial disinter mediation has been gaining momentum in the Indian economy. The Reserve Bank has been giving a definite direction to this trend through its policy initiatives. The introduction of Commercial Paper (CP) from January 1, 1990 has been one of the important policy initiatives of the RBI and it intends to bring the high credit-worthy corporate borrowers and the investors into direct contact through the scheme of Commercial Papers (CP). Commercial Papers are issued by the public utilities, insurance companies, bank holding companies and finance companies, etc. Purchasers of CPs are banks and non-banking financial institutions. The position of banks is quite significant in the market for commercial papers because in addition to being an important buyer, they also act as agents in issuing, holding of commercial papers and provide credit to firms, which issue commercial papers. The non-banking institutional investors like LIC, GIC and UTI are not substantial buyers of commercial papers because their investment requirements and funding strategies are decided by the government with the money market mutual funds opening up, the potential of CP will increase further. Though CP is said to be highly liquid because of its transferability, but in the absence of highly developed secondary markets, its liquidity could be greatly affected.

9.1.2.8 Housing Finance: -

Commercial banks have entered into Housing Finance to facilitate middle and low income groups purchase or construct houses or flats. Setting up of NHB in 1988, an apex body for housing finance has given a boost to banks. Banks like SBI, Canara Bank, PNB have already set up separate subsidiaries for housing finance. Housing Finance while open up a new era for business so far as the banks are concerned, it is also of great significance from the point of view of social justice. The Canara Bank sponsored a Housing Finance Company, Canfin Homes Ltd., in 1988, it has its branches in more than 22 cities and it operates the home loan account scheme of NHB, GIC set up a company in July 1990, GIC Frih Vista Ltd., in joint venture with its subsidiaries, UTI, ICICI, HDFC and SBI Capital Markets. The purpose of setting up these companies is to help people to own their homes. LIC set up a Housing Finance Company namely LIC Housing Finance Limited (LICHFL) in 1991 with its two schemes namely Jeevan Kutir and Jeevan Nivas. The primary business of LICHFL is granting housing loans to individuals. It also provides finances to agencies engaged in construction of houses/flats for residential purposes. It has floated various schemes for group housing loans being targeted towards Development authorities, Builders, Developers, Employer Organisation for construction of employees quarters, etc. presently, LICHFL is the largest housing finance company in terms of market share, next only to HDFC other Commercial Banks have set up their housing finance companies namely PNB Housing Finance Limited and SBI Home Finance Limited.

9.1.2.9 Venture Capital: -

Venture capital is the response of invisible funds to capitalize on an opportunity to earn very high returns as compared to conventional security backed lending by enabling high risk but high promise projects to realize their full potential.

The growth of venture capital is typically the response to the demand created for more risk-bering funds to finance commercialisation of new technologies and innovative market solutions. Venture capital industry in India is of recent origin. In 1986 the Government of India enacted Research and Development Cess Act, Prescribing collection of a cess of 5 percent on all payments for import of technology with the idea that the funds thus collected will be used for venture capital to be operated by the Industrial Development Bank of India (IDBI) Almost around the same time, ICICI set up a venture capital scheme. In 1988, ICICI established the Technology Development and Information Corporation of India ltd., (TDICI). Similarly, the Risk Capital and technology Finance Corporation was established by the Industrial Finance Corporation of India. Later, some of the state-level developmental financial institutions also promoted venture capital units-the Gujarat Venture Finance Ltd., APIDC Venture Capital Ltd., etc (APIDC-VCL, 1991 GVFL, 1988). The Canbank Venture Capital Fund was established by Canfin and Canara Bank. The Credit Capital Venture Fund (CCVF) was the firs private sector venture capital fund to be set up, followed by the Twentieth Century Venture Finance.

Some public sector banks also have undertaken venture capital financing through their subsidiaries. Canbank Financial Service Ltd., (Canfina), a subsidiary of Canara Bank, SBI Capital Markets Ltd., (SBI Caps), a subsidiary of State Bank of India and India Investment Funds and Financing Projects of Grindlays Bank have started operations in this direction.

9.1.3 New Vistas in Financial Services: -

Since the volume of international business and capital flows are increasing hence the commercial banks are likely to be exposed to different types of risks and there is a need to hedge these exposures. The emerging derivatives in foreign countries are increasingly used portfolio. It is the right times that foresee dealers, especially the commercial banks in India, familiarise with the complexity of these instruments and acquire skills to manage these emerging challenges.

Establishment of foreign banks and non-banking companies have played a very key role in introducing the technology cult in the financial sector in India. In the light of the diversified product range the banks and financial institutions are offering to public the various types of financial services in a global perspective. Hence, in the aspiration towards becoming major player in the modern financial service sector, commercial banks and various investment institutions will have to evolve appropriate strategies for technology integration for providing faster and efficient financial services.

9.2. INSURANCE SERVICES

9.2.1 Definition: -

A contract whereby one party, called the insurer or the insurance company, undertakes to compensate the other party called the 'insured', for any loss or damage suffered by the latter in consideration of payment of 'premium' for a certain period of time, is known as 'insurance'.

9.2.2 Basic Principles of Insurance: -

A contract of insurance is required to possess the following essential characteristics:

9.2.2.1 Good Faith: -

A contract of insurance is founded on the principle of 'utmost good faith' Accordingly, both parties to the contract are required to disclose all material facts. The rule of 'caveat emptor' is not applicable in the case of insurance.

9.2.2.2 Insurable Interest: -

The insured party is required to have an insurable interest on the object on which the insurance policy is taken. Insurable interest is required to be present both at the time of the contract, as well as at the time of loss. Insurance interest refers to the pecuniary or financial interest possessed by the beneficiary, which is the insured party on the object being insured for. This implies that loss or damage caused to such an object would cause financial loss to the insured party.

9.2.2.3 Compensation: -

An insurance contract undertakes to indemnify the insured for any loss or damage sustained due to the risk against which it is insured. This is applicable only to the general insurance business, where it is possible to calculate the loss or the damage in terms of money the amount of compensation depends on the value of the insurance policy and not on the value of the object insured.

9.2.2.4 Subrogation: -The term 'subrogation' refers to stepping into the shoes of others. Accordingly an insurer can step into all the rights and privileges of the insured in relation to the insured object, after making payment to the insured. Under this doctrine, the property in the object will pass on to the insurance company after the payment of insurance claims.

9.2.2.5 Contribution: -

According to this principle, the amount of compensation forthcoming from an insurance company would depend proportionately on the amount for which the insurance policy has undertaken to compensate for the loss. This is applicable in the case of 'double insurance', whereby the insured insures the object with more them one insurance company.

9.2.2.6 Loss Mitigation: -

In order that the insurance company makes a reasonable payment of claims, it is necessary that the insured party takes all the necessary steps to mitigate the risk of loss in the event that the contingency insured against occurs. The insured must act as a person of ordinary prudence, and should make all reasonable efforts to minimize the loss.

9.2.2.7 Cause Proxima: -

According to this principle, risk coverage is available to the insured party, provided the loss has occurred directly from such events as specified in the insurance policy.

Reinsurance:

The insurance business done between insurance companies is known as 'reinsurance'. It is an arrangement through which it is possible for one insurance company to transfer a portion of its insurance business to other insurance company. Such an arrangement helps an insurance company to minimize its share of claims. There are two types of reinsurance. When one insurance company off-loads a portion of its insurance business to other insurance companies, it is a case of 'reinsurance ceded'. On the other hand, when one insurance company accepts a portion of insurance business of other insurance companies, it is a case of 'reinsurance accepted'.

9.2.3 Life Insurance:

9.2.3.1 Definition:

A contract in which the insurer undertakes to pay a certain sum of money to the insured, either on the expiry of a specified period, or on the death of the insured in consideration of payment of 'premium' for a certain period of time, is known as 'life insurance'. It is typically called 'life assurance' Life insurance serves the purpose of protection as well as an investment contract. It is a protection contract because it gives protection to the assured in the event of death, by making payment of the entire amount of the 'sum assured'. It is an investment contract too, as it gives the assured/investor the advantage of regaining the money with interest and bonus at the end of the policy.

9.2.3.2 Policies:

Some of the popular types of life assurance policies are as follows.

1. Whole life policy: An ordinary policy which runs throughout the life of the assured is known as 'whole life policy' the sum assured under this policy is payable only after the death of the assured. The premium payable is low, and is meant to protect the family. This policy offers the advantage of an investment for a life term.
2. Endowment policy: The policy runs for a period as specified in the policy document. The sum assured, along with the bonuses, are payable either on the date of maturity of the policy, or on the death of the assured, whichever occurs earlier. This policy offers the advantage of both protection and investment.
3. Annuity policy: Under this policy, the amount of the policy is paid in the form of annuities for a specified number of years, or till the death of the assured.
4. Joint life policy: When the insurance policy covers the lives of two or more persons, it is called 'Joint life policy'.
5. Group insurance policy: when an insurance policy is taken out on the lives of the members of the family, or the employees of a business concern, it is called 'group insurance policy'.

9.2.4 General Insurance:

9.2.4.1 Introduction:

A contract whereby, upon periodic payment of a sum of money called premium, the insurer undertakes to compensate the insured in the event of any specified loss or damage suffered by the latter, is known as 'general insurance'. A typical characteristic of general insurance is that it serves only as a protection contract and not as an investment contract. This means that the money paid as premium will come back to the insured by way of claims only on the occurrence of some specified events resulting in loss or damage to the insured.

9.2.4.2 Types: -

The various types of general insurance are fire insurance, marine insurance, personal accident insurance etc.

Fire insurance:

Under fire insurance, the insurance company under takes to indemnify the loss sustained by the insured party on account of fire accidents. In order that fire claims are admitted by the insurance company, there must be an actual fire that is accidental and not international. The cause of the fire is immaterial for the fire claim to be admitted. However, in the event of a fire breaking out, the insured party must have taken all the precautions that a person of ordinary prudence would take to salvage the subject matter insured.

1. Valued policy: It is a policy wherein the value of the property is agreed upon, and the insurance company undertakes to pay the agreed value in the event of destruction of the property.
2. Average policy: A policy wherin, fire claims are paid to the insured in proportion to the actual value of the property at the time of loss, is called 'average policy'. Such a clause aims at preventing under-insurance.
3. Specific policy: This is a policy wherin risk on account of fire is insured for a specific sum. The maximum coverage under this policy shall be upto the amount of the insurance policy.
4. Floating policy: When an insurance policy covers risk pertaining to one or several kinds of goods in different places for a single sum and for a single premium, it is called a 'floating policy'.
5. Excess policy: In a policy where the risk coverage is to the extent of the maximum additional amount by which stocks may sometimes increase, it is called 'excess policy'.
6. Blanket policy: Where the risk pertaining to all types of assets, fixed as well as current is covered under one single insurance policy, it is a case of 'blanket policy'.
7. Comprehensive policy: A policy which covers all types of risks arising from explosion, lightning, thunderbolt, riot, civil commotion, strikes, burglary, etc. is called a 'Comprehensive policy'.
8. Consequential loss policy: Where a fire policy covers the risks arising from loss of profit owing to interruption of business by fire, it is called a 'Consequential loss policy'.

Marine Insurance: -

An insurance contract, which covers the risks of loss arising from and incidental to marine adventure, is known as 'Marine Insurance'. The kinds of risks that are covered in this type of insurance are cargo, hull, freight, etc. The different types of marine insurance includes cargo insurance, hull insurance and freight insurance. Cargo insurance covers the risks arising from an act of god, enemy, fire, gales, etc. Hull insurance covers the risk caused to the ship during the voyage. Freight insurance covers risks arising from the non-payment of freight charges to the owner of the ship on account of the perils of the sea voyage.

Other Insurances: -

In addition to fire and marine insurance other popular types of general insurance includes motor insurance, burglary, theft and robbery insurance.

Liability insurance: A type of insurance contract that provides insurance protection to a person in the event of damage caused to someone's heath or property, if found to be at fault is called 'Liability insurance'.

9.2.4.3 Concept of Insurance Services: -

Services relating to life and non-life insurance, offered by banks and financial institutions to trade and non-trade customers, on the basis of premium payments, may be referred to as ‘Insurance services’.

9.2.5 Profile of Insurance Service Providers: -

With the liberalization of the Indian economy, the insurance industry is has a large number of players, especially the private players in the recent past. The Life Insurance Corporation of India (LIC) remains the single largest service provider in the realm of life insurance, while United India Insurance dominates general insurance business. A profile of the various service providers in the insurance industry is presented below:

9.2.5.1 General Insurers: -

The General Insurance Corporation of India (GIC) had four subsidiary companies, namely.

1. Oriental Insurance Company Limited.
2. New India Assurance Company Limited.
3. National Insurance Company Limited.
4. United India Insurance Company Limited.

(With effect from December 2000, these subsidiaries have been de-linked from parent company and made independent insurance companies)

In addition, the following were also registered with the IRDA for carrying out general insurance business:

1. Royal Sundaram Alliance Insurance Company Limited, on 23-10-2000.
2. Reliance General Insurance Company Limited on 23-10-2000.
3. IFFCO Tokio General Insurance Company Limited, on 04-12-2000.
4. TATA AIG General Insurance Company Limited, on 22-01-2001.
5. Bajaj Allianz General Insurance Company Limited, on 02-05-2001.
6. ICICI Lombard General Insurance Company Limited, on 03-07-2002.
7. Cholamandalem General Insurance Company Limited, on 15-07-2002.

9.2.5.2 Life Insurers: -

In addition to the LIC of India, the following companies have been registered with the IRDA for providing life insurance services:

1. HDFC Standard Life Insurance Company Limited, on 23-10-2000.
2. Max New York Insurance Company Limited, on 15-11-2000.
3. ICICI Prudential Life Insurance Company Limited, on 24-11-2000.
4. Om Kotak Mahindra Life Insurance Company Limited, on 10-01-2001.
5. Birla Sun Life Insurance Company Limited, on 12-01-2001.
6. TATA AIG Life Insurance Company Limited, on 12-02-2001.
7. SBI Life Insurance Company Limited, on 30-03-2001.
8. ING Vysya Life Insurance Company Limited, on 02-08-2001.
9. Allianz Bajaj Life Insurance Company Limited, on 03-08-2002.

10. Metlife India Insurance Company Private Limited, on 06-08-2001.
11. AMP SANMAR Assurance Company Limited, on 03-01-2002.
12. Dabur CGU Life Insurance Company Private Limited, on 14-05-2002.

9.2.6 Insurance Regulatory and Development Authority (IRDA): -

9.2.6.1 Composition: -

The Insurance Regulatory and Development Authority (IRDA), was constituted by an act of Parliament (Under Section 4 of IRDA Act 1999). The authority is a ten member team consisting of a chairman, five whole-time members and four part-time members, all appointed by the Government of India.

9.2.6.2 Duties: -

Under Section 14 of the IRDA Act, the authority's duty is to regulate, promote and to ensure an orderly growth of the insurance and the re-insurance business.

9.2.6.3 Powers and Functions:

Under subsection 1 of Section 14 of the IRDA Act, the authority has the following powers and function:

1. Registration: Insurance of certificate of registration, or to renew, modigy, withdraw, suspend or cancel such registration.
2. Protection: Protection of the interests of policy holders in matters concerning assigning of policy, nomination by policy holders, insurable interest, settlement of insurance claim, surrender value of policy and other. Terms and conditions in contracts of insurance.
3. Qualification: Specifying the requisite qualifications, code of conduct and practical training for insurance intermediaries and agents.
4. Code of conduct: Specifying the code of conduct for surveyors and loss assessors.
5. Efficiency: Promoting efficiency in the conduct of the insurance business.
6. Professionalism: Promoting and regulating professional organizations connected with the insurance and re insurance business.
7. Fees etc: Levying fees and other charges for carrying out the objectives of this Act.
8. Information: Calling for information from, undertaking inspection of and conducting enquiries and investigations, including audit of the insurers, intermediaries including audit of the insurers, intermediaries and other organizations connected with the insurance business.
9. Terms of business: Control and regulation of the rates terms and conditions that may be offered by insurers for general insurance, business not so controlled and regulated by the Tariff Advisory Committee under section 64U of the Insurance Act, 1938 (4 of 1938).
10. Book of accounts: Specifying the form and the manner is which books of account shall be maintained, and statement of accounts shall be rendered by insurers and other insurance intermediaries.
11. Funds investment: Regulating investment of funds by insurance companies.
12. Margin of solvency: Regulating the maintenance of margin of solvency.
13. Adjudication: Adjudication of disputes between insurers and intermediaries or insurance.
14. Supervising: Supervising the functioning of the Tariff Advisory Committee.
15. Premium income: Specifying the percentage of the premium income going into finance scheme for promoting and regulating professional organizations pursuing assurance business.

16. Rural Insurance etc: Specifying the percentage of life insurance business and general insurance business to be undertaken by the insurer in the rural or social sector.

9.3 Self Examination Questions:

1. Explain various financial services offered by banking sector?
2. Explain the roll of commercial banks in housing finance?
3. Give a brief note on recent changes in financial services offered by banking sector?
4. What are the basic principles of insurance?
5. What are various types of Life Insurance Policies?
6. What are various types General Insurance?
7. Give brief note on the functioning of IRDA?

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