UNIT-III
FINANCIAL INSTITUTIONS

1. What is Development Finance Institutions (DFIs)? State its objectives.

Ans. A development financial institution (DFI), also known as a development bank or development finance company (DFC), is a financial institution that provides risk capital for economic development projects on a non-commercial basis.

A Development Financial institution (DFI) is defined as "an institution endorsed or supported by Government of India primarily to provide development/Project finance to one or more sectors or sub-sectors of the economy.

It emphasizes the long term financing of a project rather than collateral based financing apart from provision of long-term loans, equity capital, guarantees and underwriting functions, a development institution normally is also expected to upgrade the managerial and the other operational requirements of the assisted projects. DFI is on long-term finance and support for activities to the sectors of the economy where the risks may be higher that may not be feasible for commercial banks to finance them.

Objectives of Development Finance Institutions

(i)The prime objective of DFI is the economic development of the country

(ii)These banks provide financial as well as the technical support to various sectors

(iii)DFIs do not accept deposits from people

(iv)They raise funds by borrowing funds from governments and by selling their bonds to the general public

(v)It also provides a guarantee to banks on behalf of companies and subscriptions to shares, debentures, etc.

(vi)Underwriting enables firms to raise funds from the public. Underwriting a financial institution guarantees to purchase a certain percentage of shares of a company that is issuing IPO if it is not subscribed by the Public.

(vii)They also provide technical assistance like Project Report, Viability study, and consultancy services.

2. What are the Development Financial Institutions in India?
Or
Name Development Financial Institutions in India

Ans. India had set up extremely successful DFIs such as:

(i) Industrial Finance Corporation of India (IFCI) in 1948.

(ii) Industrial Development Bank of India (IDBI) in 1964.

(iii) Industrial Credit and Investment Corporation of India (ICICI) in 1955.

(iv) Industrial Reconstruction Bank of India (IRBI) in 1985.
(v) Small Industries Development Bank of India (SIDBI) in1990.

3. Explain the role of Development Banks/ Development Finance Institutions (DFIs) in economic development of a country.

Ans. The Development Banks/ Development Finance Institutions (DFIs) play an important role in the economic development of a country:

(i) Providing Funds: The persons who have the capability of starting a business but does not have requisite help approach to financial institutions for help. These institutions help a large number of persons for taking up some industrial activity.

(ii)Promotional activities: The promotional role of development banks is helpful in increasing the development of a country. They create a new class of entrepreneurs and help the weaker sections of society to be a part of industrial culture. With a view for a long term benefit to social development, banks have new capital schemes which provide financial assistance to the novice entrepreneurs. They help in covering the expense and manpower resources for undertaking the exercise of starting a new unit.

(iii)Assistance of backward units: The development bank encourages rustic and provincial development. They give money to beginning organizations in reverse zones. Likewise, they help organizations which are in the venture in less-developed regions.

(iv)Employment generation: Financial institutions have helped both direct and indirect employment generation. They have employed many people in their offices. These institutions help in creating employment by financing new and existing industrial units.

(v) Accelerating Industrialization: The setting up of more industrial units will generate direct and indirect employment, make available goods and services in the country and help in increasing the standard of living. Financial institutions provide requisite financial, managerial, technical help for setting up new units.

(vi)Development of Housing Sector: Development banks provide funding for the development of the housing sector. It refinances banks and financial institutions which provides credit to the housing sector. It promotes and develops housing and financial institutions.

(vii)Agriculture and Rural Development: It organizes the working of all monetary establishments that give credit to farming and rural development. Development banks like the National Bank for Agriculture and Rural Development (NABARD), which give credit to the agriculture and furthermore for country advancement exercises.

(viii) Improve Foreign Trade: It gives Overseas Buyers Credit to purchase Indian capital merchandise. Likewise, urges abroad banks to give account to the purchasers in their nation to purchase capital products from India.

(ix)Revival of Sick Units: Development banks help to resuscitate (fix) wiped out units. It encourages modernization, rebuilding, and broadening of wiped out units by giving credit and different administrations. The public authority of India (GOI) began the Industrial Investment Bank of India (IIBI) to help wipe out units. IIBI is the principal credit and recreation foundation for a restoration of wiped out units.

(x)Contribution to Capital Markets: The development bank helps in the growth of capital markets. They invest in equity shares and debentures and mutual funds of several companies listed in India.

4. What do you mean by mutual fund? Explain the different types of mutual fund.

Ans. A mutual fund is a financial intermediary that pools the savings of the investors for collective investment in a diversified port folio of securities.

The fund is termed as mutual because all its return minus its expenses is shared by the fund's investors.

A mutual fund serves as a link between the investors and the securities market. It collects the savings of the individuals & institutions and channelizes their savings essentially in corporate securities in such a way as to ensure steady return and capital appreciation and reduce risk. The members of the fund enjoy collectively the benefits of expertise in investment by specialist in the fund.

TYPES OF MUTUAL FUND:

Mutual fund is an important means of investment in the financial market for the retail investors. To cater to the varying needs and preferences of large number of savers many types of funds are offered by the mutual fund. The various mutual fund may be classified under five broad categories:-

(I) According to ownership.
(II) According to Scheme of operation.
(III) According to Portfolio.
(IV) According to Location.
(V) Others.

(i)According to Ownership: According to ownership mutual fund in India may be classified as:

(a)Public Sector Mutual Fund: Public Sector mutual fund refers to the fund floated by public sector financial institution for e.g., in India mutual fund floated by the UTI, LIC, Canara Bank, SBI etc. are public sector mutual fund.

(b)Private Sector Mutual Fund: Mutual fund set up by Private Companies is termed as Pvt. Sector mutual fund.

(ii)According to scheme of operation: According to scheme of operation mutual fund can be divided into three categories:

(a)Open ended Mutual Fund : Incase of open ended scheme the mutual fund continuously offer to sale & re-purchase its units act Net Asset Value (NAV) or NAV related prices.

(b)Close ended Mutual Fund: A close ended scheme has a fixed return and a definite maturity period. Such schemes are listed in stock exchange and the investors can buy and sell the units of the scheme in the market. The price of the units in the stock market is determined by the forces of demand and supply and hence could be different from the NAV.

(c) Interval Mutual Fund: Interval scheme is a scheme which has the features of both the open ended & close ended schemes.

(iii)According to Port Folio: Mutual fund can also be classified according to port folio or the objectives of the funds. Some of these funds are given below.

(a)Income fund: Income fund aims at maximizing the current income of the investors from investment. There are two aspects of income:
(1) Low risk and constant income.
(2) High risk and maximum income.

Such funds employ their funds in high yielding equity as well as in bonds.

(b)Growth Fund: Growth funds invest its fund in equity stock with the object of capital appreciation of the investment over a long period of lime. Growth fund is a high risk investment fund with high capital gains potential & low current income assurance.

(c) Balanced Fund: The aim of balanced fund is to provide both capital appreciation and regular income.

(d)Equity fund: Equity fund invest in equity shares of companies. Such funds are for those investors who are willing to take risk in the hope of very high return.

(e)Bond Fund: Bond fund invest in various kinds of bond so as to ensure regular and fixed income to investors.

(iv)According to Location: According to location mutual fund can be divided into.

(a)Domestic Fund: Domestic Mutual fund operates within the boundary of the country.

(b)Offshore fund: Offshore mutual fund facilities cross border fund flow. There fund attract foreign capital for investment in the market of specific country or countries.

(v)Others: In addition to the above mutual fund there can be some other types of mutual fund:

(a) Sectoral Fund: The sectoral fund invests in specific sector like power telecommunications, information technology, entertainment etc.

(b)Taxation fund: Taxation fund is designed to provide tax exemption benefits to the invertors.

(c)Money market mutual fund: Money market mutual fund are set up to invest exclusively in short term money market instrument like treasury bills, commercial papers, certificate of deposits etc.

(d)Index Fund: It is mutual fund which invest in only the securities in the index on which it is based, eg., Bombay Stock exchange, SENSEX .

5. Briefly explain advantages and the problems of mutual fund in India.

Ans.: Advantages of Mutual Fund:

(i) Professional Management: The services of highly experienced and skilled professionals are availed under mutual funds. These professionals are backed up by a dedicated investment research team which first analyses the performance and prospects of companies and then invest accordingly.

(ii) Diversification: MFs invest in a wide range of companies of different industries and sectors. Thus, investors enjoy the benefit of diversification with less money and less risk. However it must be noted that sectoral funds such as IT funds, Pharma funds etc. may not provide the benefit of diversification as all the stocks in the portfolio of sectoral schemes belong to a particular sector.

(iii) Convenient Administration: Investing in a Mutual Fund reduces a huge amount of paper work. Further, it helps investors to avoid many problems like bad deliveries, delayed payments and unnecessary follow up with brokers and companies.

(iv) Return Potential: Mutual Funds may provide higher returns in medium to long term as they invest in wide range of securities which is not possible to attain by a small investor.

(v) Low Costs: Mutual Funds are less expensive way of investing in comparison with direct investing. Indirect investing via mutual funds offers the benefits of scale in brokerage, custodial & other fees. All these benefits translate into lower costs for investors.

(vi) Liquidity: In open ended schemes, investors can get their money back instantly at the prevailing NAV. Also in close-ended schemes, investors can sell their units on a stock exchange at the prevailing market price, or can go for direct repurchase at NAV related prices.

(vii) Transparency: Investors get regular information about the value of their investment. The disclosure on the investments made by the particular scheme along with the proportion invested in each class of assets and details regarding future investment strategy are also provided.

(viii)Best Tax Saving Option: Mutual Funds provide the best tax saving options. ELSS Mutual Funds have a tax exemption of Rs. 1.5 lakh a year under section 80C of the Income Tax Act. All other Mutual Funds in India are taxed based on the type of investment and the tenure of investment. ELSS Tax Saving Mutual Funds has the potential to deliver higher returns than other tax-saving instruments like PPF, NPS, and Tax Saving FDs.

Problems of mutual fund in India:

The Mutual fund in India has not been able to perform up to desired level and in many cases have expressed their financial inability to repay the invested capital along with promised rate of returns. The following are some of the main problems that are being faced by Indian mutual fund:

(i)Liquidity Crisis: Mutual fund in India faced liquidity problems. Investors are not able to drawback from some of the schemes, there is no easy exist route. Bad delivery has caused a lot of problems and liquidity crisis for the mutual fund.

(ii)Lack of innovation: Mutual fund in India have not been able to provide innovate schemes in terms of risk, liquidity and choice of investors.

(iii)Inadequate research: Most of the mutual fund in India is suffering because of inadequate research facilities. Most of the funds depend upon external research and have no facilities for in-house research.

(iv)Conventional pattern of investment: Mutual fund in India have been following conservative pattern of investment. They have not been able to diversity the risk to a large extent, which has caused low returns on investment.

(v)No provision for performance guarantee: Mutual funds in India, have so far failed to provide performance guarantee to the investors. In many cases, there has been erosion of capital.

(vi)Inadequate disclosure: There have not been adequate and timely disclosures of material information to the investors by the mutual funds in India.

(vii)Delays in Service: Mutual fund in India has also not been able to provide quick and adequate service to the investors. In many cases, there is no response to the investor's grievances.

(viii) No rural sector investment base: Indian mutual funds, so far, have not been able to create rural sector investment base. Sufficient efforts have not been made to educate the potential investors. Mutual fund should launch investor's education programs and expand their activities to rural areas.

6. Write a detailed not on NBFCs.

Ans. Meaning of NBFC: NBFC (Non-Banking Financial Company) is a company registered under the Companies Act 1956 or 2013. NBFC is a company with its primary business of receiving deposits. It raises funds from the public (directly or indirectly) and lends them to the small enterprises. NBFCs provide credit facilities and are preferred more than banks. They are not allowed to run their business without getting a license from RBI.

NBFCs engaged in the business of loans and advances, acquisition of shares/stocks/bonds/ debentures/securities issued by Government or local authority or other marketable securities of a like nature, leasing, hire-purchase, insurance business, chit business but does not include any institution whose principal business is that of agriculture activity, industrial activity, purchase or sale of any goods (other than securities) or providing any services and sale/purchase/construction of immovable property.

Salient Features of NBFCs:

(i)Non-banking financial companies are also known as non-banking financial institutions (NBFIs).
(ii)These are entities which provide bank-like financial services but do not hold a banking license.

(iii)Therefore, the NBFCs are not bound by the banking regulations and oversight to which the traditional banks have to adhere.
(iv)NBFCs are regulated by the Ministry of Corporate Affairs and the Reserve Bank of India.

Examples of NBFCs in India:

(i)Bajaj Finance Limited
(ii) Shriram Transport Finance Company Limited
(iii) Muthoot Finance Limited
(iv) Mahindra & Mahindra Financial Services
(v) Limited Sundaram Finance Limited
(vi) Bajaj Holdings Limited
(vii)Tata Investment Corporation Limited
(viii) Reliance Capital Limited etc.

Types of NBFCs are as follows:

(i)Asset Finance Company (AFC) : An AFC is a company which is a financial institution carrying on as its principal business the financing of physical assets supporting productive/economic activity, such as automobiles, tractors, lathe machines, generator sets, earth moving and material handling equipments, moving on own power and general purpose industrial machines. Principal business for this purpose is defined as aggregate of financing real/physical assets supporting economic activity and income arising therefrom is not less than 60% of its total assets and total income respectively.

(ii)Investment Company (IC): IC means any company which is a financial institution carrying on as its principal business the acquisition of securities.

(iii)Loan Company (LC): LC means any company which is a financial institution carrying on as its principal business the providing of finance whether by making loans or advances or otherwise for any activity other than its own but does not include an Asset Finance Company.

(iv) Infrastructure Finance Company (IFC): IFC is a non-banking finance company (a) which deploys at least 75 per cent of its total assets in infrastructure loans, (b) has a minimum Net Owned Funds of Rs 300 crore, (c) has a minimum credit rating of 'A 'or equivalent (d) and a CRAR (Capital Adequacy Ratio) of 15%.

(v)Systemically Important Core Investment Company (CIC-ND-SI): CIC-ND-SI is an NBFC carrying on the business of acquisition of shares and securities.

(v)Infrastructure Debt Fund: Non- Banking Financial Company (IDF-NBFC): IDF-NBFC is a company registered as NBFC to facilitate the flow of long term debt into infrastructure projects. IDF-NBFC raise resources through issue of Rupee or Dollar denominated bonds of minimum 5 year maturity. Only Infrastructure Finance Companies (IFC) can sponsor IDF-NBFCs.

(vi)Non-Banking Financial Company - Micro Finance Institution (NBFC-MFI): MFI means for microfinance institutions which operate at a further smaller level than NBFC. MFI provides very small loans to the underprivileged sections of society. NBFC-MFI is a non-deposit taking NBFC having not less than 85% of its assets in the nature of qualifying assets which satisfy the following criteria:

(a) loan disbursed by an NBFC-MFI to a borrower with a rural household annual income not exceeding Rs 1,00,000 or urban and semi-urban household income not exceeding Rs 1,60,000;

(b) loan amount does not exceed Rs 50,000 in the first cycle and Rs 1,00,000 in subsequent cycles;

(c) tenure of the loan not to be less than 24 months for loan amount in excess of Rs 15,000 with prepayment without penalty;

(d) loan to be extended without collateral; etc.

(vii) Non-Banking Financial Company – Factors (NBFC-Factors): NBFC-Factor is a non-deposit taking NBFC engaged in the principal business of factoring. The financial assets in the factoring business should constitute at least 50 percent of its total assets and its income derived from factoring business should not be less than 50 percent of its gross income.

(viii) Mortgage Guarantee Companies (MGC) - MGC are financial institutions for which at least 90% of the business turnover is mortgage guarantee business or at least 90% of the gross income is from mortgage guarantee business and net owned fund is Rs 100 crore.

(ix)NBFC- Non-Operative Financial Holding Company (NOFHC): NOFHC is financial institution through which promoter / promoter groups will be permitted to set up a new bank .It's a wholly-owned Non-Operative Financial Holding Company (NOFHC) which will hold the bank as well as all other financial services companies regulated by RBI or other financial sector regulators, to the extent permissible under the applicable regulatory prescriptions.

7. What is Commercial Banks? Explain the functions of commercial banks.

Ans. A commercial bank is a kind of financial institution that carries all the operations related to deposit and withdrawal of money for the general public, providing loans for investment, and other such activities. These banks are profit-making institutions and do business only to make a profit.

The two primary characteristics of a commercial bank are lending and borrowing. The bank receives the deposits and gives money to various projects to earn interest (profit). The rate of interest that a bank offers to the depositors is known as the borrowing rate, while the rate at which a bank lends money is known as the lending rate.

Function of Commercial Bank:

The functions of commercial banks are classified into two main divisions.

(a) Primary functions

(i) Accepts deposit: The bank takes deposits in the form of saving, current, and fixed deposits. The surplus balances collected from the firm and individuals are lent to the temporary requirements of the commercial transactions.

(ii) Provides loan and advances: Another critical function of this bank is to offer loans and advances to the entrepreneurs and business people, and collect interest. For every bank, it is the primary source of making profits. In this process, a bank retains a small number of deposits as a reserve and offers (lends) the remaining amount to the borrowers in demand loans, overdraft, cash credit, short-run loans, and more such banks.

(iii) Credit cash: When a customer is provided with credit or loan, they are not provided with liquid cash. First, a bank account is opened for the customer and then the money is transferred to the account. This process allows the bank to create money.

(b) Secondary functions

(i)**Discounting bills of exchange:** It is a written agreement acknowledging the amount of money to be paid against the goods purchased at a given point of time in the future. The amount can also be cleared before the quoted time through a discounting method of a commercial bank.

(ii)Overdraft facility: It is an advance given to a customer by keeping the current account to overdraw up to the given limit.

(iii) **Purchasing and selling of the securities:** The bank offers you with the facility of selling and buying the securities.

(iv)Locker facilities: A bank provides locker facilities to the customers to keep their valuables or documents safely. The banks charge a minimum of an annual fee for this service.

(v)Paying and gathering the credit: It uses different instruments like a promissory note, cheques, and bill of exchange.

8. What is working capital finance? Explain the role of commercial banks in working capital finance.

Ans. Working capital finance is business finance designed to boost the working capital available to a business. It's often used for specific growth projects, such as taking on a bigger contract or investing in a new market.

Different businesses use working capital finance for a variety of purposes, but the general idea is that using working capital finance frees up cash for growing the business which will be recouped in the short- to medium-term.

Role of commercial bank in working capital finance: Commercial banks are the most important source of working capital. The major portion of working capital loans are provided by commercial banks. They provide a wide variety of loans tailored to meet the specific requirements of a concern. The different forms in which the banks normally provide loans and advances are as follows:

(i)Cash Credit – Under this facility, the bank specifies a predetermined limit and the borrower is allowed to withdraw funds from the bank up to that sanctioned credit limit against a bond or other security. However, the borrower cannot borrow the entire sanctioned credit in lump sum; he can draw it periodically to the extent of his requirements. Similarly, repayment can be made whenever desired during the period. There is no commitment charge involved and interest is payable on the amount actually utilized by the borrower and not on the sanctioned limit.

(ii)Overdraft – Under this arrangement, the borrower is allowed to withdraw funds in excess of the actual credit balance in his current account up to a certain specified limit during a stipulated period against a security. Within the stipulated limits any number of withdrawals is permitted by the bank. Overdraft facility is generally available against the securities of life insurance policies, fixed deposits receipts, Government securities, shares and debentures, etc. of the corporate sector. Interest is charged on the amount actually withdrawn by the borrower, subject to some minimum (commitment) charges.

(iii)Loans – Under this system, the total amount of borrowing is credited to the current account of the borrower or released to him in cash. The borrower has to pay interest on the total amount of loan, irrespective of how much he draws. Loans are payable either on demand or in periodical instalments. They can also be renewed from time to time. As a form of financing, loans imply a financial discipline on the part of the borrowers.

(iv)Bills Financing – This facility enables a borrower to obtain credit from a bank against its bills. The bank purchases or discounts the bills of exchange and promissory notes of the borrower and credits the amount in his account after deducting discount. Under this facility, the amount provided is covered by cash credit and overdraft limit. Before purchasing or discounting the bills, the bank satisfies itself about the creditworthiness of the drawer and genuineness of the bill.

(v)Letter of Credit – While the other forms of credit are direct forms of financing in which the banks provide funds as well as bears the risk, letter of credit is an indirect form of working capital financing in which banks assumes only the risk and the supplier himself provide the funds.

(vi)Working Capital Loan – Sometimes a borrower may require additional credit in excess of sanctioned credit limit to meet unforeseen contingencies. Banks provide such credit through a Working Capital Demand Loan (WCDL) account or a separate non–operable‘cash credit account..

9. What is project finance? Explain the role of commercial banks in project finance.

Ans. Project finance refers to the funding of long-term projects, such as public infrastructure or services, industrial projects, and others through a specific financial structure. Finances can consist of a mix of debt and equity. The cash flows from the project enable servicing of the debt and repayment of debt and equity.

Role of commercial bank in project finance: Commercial banks have always had an active role in project finance transactions. In fact, project finance is generally thought to have begun in the 1930s when a Dallas bank made a non-recourse loan to develop an oil and gas property. It "came of age" in the 1970s and '80s with the successful financing of North Sea oil and gas projects, Australia's Northwest Shelf gas project, independent non-utility power generation in the United States, and similar substantial projects.

Project finance has been employed in almost all capital-intensive industries, particularly in transportation (aircraft, rail, and shipping), in mineral and other natural resource exploration and development (including oil and gas), and, most recently, in independent power projects. Project finance is also commonly used in countries whose domestic capital markets are small relative to their project development requirements (e.g., Australia and Canada) or are relatively immature (e.g., certain developing countries).

Traditional Role: Commercial banks can provide project financing because they are able to evaluate complex project financing transactions and to assess and assume the construction and performance risks usually involved in such financings. However, largely because of the short-term nature of a commercial bank's liabilities (its deposits), commercial bank participation is usually limited in amount, although banks closely monitor and control their project finance assets much as they do their other long-term assets. Project sponsors frequently seek financing through a "request for proposal" or "RFP" process, and several commercial banks are likely to form separate syndicates or "clubs" to respond to an RFP. The division of work within a syndicate is often functional, and has become quite efficient, with individual banks designated as technical agent, documentation agent, syndication agent, and variations thereof.

New Roles: As commercial banks look for fee income through "unbundling" their financial services, many have established project finance advisory groups, some with considerable success. These groups offer advisory services that include the commercial bank's experience in feasibility assessment and financial analysis, trade credit, and international finance (especially the bank's experience with the multi- and bilateral institutions that are the critical participants in most international infrastructure projects), and its overall project development and management skills (including the negotiation and documentation of increasingly large and complex transactions). Some commercial banks have used their project finance experience to market corporate trust services in international capital market financings for projects. They can sell the value to sponsors and investors of having an experienced trustee or fiscal agent involved in complex project financing transactions.

The "unbundling" of financial services by commercial banks in the area of project finance has provided and will continue to provide new opportunities for commercial banks (and new competition) in the explosion of worldwide project finance needs. It has also allowed banks to differentiate themselves in the provision of such services.

10. What is Life Insurance? Explain the different types of life insurance.

Ans. Life insurance is a type of insurance policy in which the insurance company undertakes the task of insuring the life of the policyholder for a premium that is paid on a daily/monthly/quarterly/yearly basis.

Life Insurance policy is regarded as a protection against the uncertainties of life. It may be defined as a contract between the insurer and insured in which the insurer agrees to pay the insured a sum of money in the case of cessation of life of the individual (insured) or after the end of the policy term.

Some of the types of life insurance policies that are prevalent in the market are:

(i)Whole life policy: As the name suggests, in this kind of policy the amount that is insured will only be paid out to the person who is nominated and it is only payable on the death of the insured.

Some insurance policies have the requirement that premium should be paid for the whole life while others may be restricted to payment for 20 or 30 years.

(ii)Endowment life insurance policy: In this type of policy the insurer undertakes to pay a fixed sum to the insured once the required numbers of years are completed or there is death of the insured.

(iii)Joint life policy: It is that type of policy where the life insurance is availed by two persons, the premium for such a policy is paid either jointly or by each individual in the form of instalments or a lump sum amount.

In the case of such a policy the assured sum is provided to both or any one of the survivors upon the death of any policyholder. These types of policy are taken mostly by husband and wife or between two partners in a business firm.

(iv)Annuity policy: Under this policy, the sum assured or the policy money is paid to the insured on a monthly/quarterly/half-yearly or annual payments. The payments are made only after the insured attains a particular age as dictated by the policy document.

(v)Children's Endowment policy: Children's endowment policy is taken by any individual who wants to make sure to meet the expenses necessary for children's education or for their marriage. Under this policy, the insurer will be paying a certain sum of money to the children who have attained a certain age as mentioned in the policy agreement.

11. What is General Insurance/ Non-life Insurance? Explain the different types of Non-life insurance.

Ans. General Insurance/Non-life Insurance is related to all other aspects of human life apart from the life aspect and it includes health insurance, motor insurance, fire insurance, marine insurance and other types of insurance such as cattle insurance, sport insurance, crop insurance, etc.

The various types of general insurances are discussed in the following lines:

(i)Fire Insurance: Fire insurance is a type of general insurance policy where the insurer helps in paying off for any damage that is caused to the insured by an accidental fire till the specified period of time, as mentioned in the insurance policy.

Generally, fire insurance policy is valid for a period of one year and it can be renewed each year by paying a premium, which can be a lump sum or in instalments.

The claim for a fire loss must satisfy the following conditions:

(a)It should be an actual loss

(b)The fire must be accidental and not done intentionally

(ii)Marine Insurance: Marine insurance is a contract between the insured and the insurer. In marine insurance, the protection is provided against the perils of the sea. The instances of dangers in sea can be collision of ship with rocks present in sea, attacking of the ship by pirates, fire in ship.

(iii)Health Insurance: Health insurance is an effective safeguard for protection against rising healthcare costs. Health insurance is a contract that is made between an insurer and an individual or a group where the insurer agrees to provide health insurance against certain types of illnesses to the insured individual or individuals.

The premium can be paid in instalments or as a lump sum amount and health insurance policy is renewed every year by paying the premium.

The health insurance claims can be done either directly in cashless or reimbursement availed after treatment is done. Health insurance is available in the form of Mediclaim policy in India.

(iv)Motor vehicle insurance: Motor vehicle insurance is a popular option for the owners of motor vehicles. Here the owners' liability to compensate individuals killed by negligence of motorists is borne by the insurance company.

(v) Cattle Insurance: In case of cattle insurance, the owner of the cattle receives an amount in the event of death of the cattle due to accident, disease or during pregnancy.

(vi)Crop Insurance: Crop insurance is a contract for providing financial support to the farmers in the event of crop failure due to drought or flood.

(vii) Burglary Insurance: Burglary insurance comes under the insurance of property. Here the insured is compensated in the event of a burglary for the loss of goods, damage occurred to household goods and personal effects due to burglary, larceny or theft.

12. Distinguish between Life Insurance and General Insurance/Non-life Insurance.

Ans.

Basis	Life Insurance	General Insurance
1. Certainty	In case of life insurance the risk involved is certain because a person is bound to die sooner or later.	In general insurance the risk involved is uncertain. The person may suffer a loss or he may not suffer a loss.
2. Nature of Contract	Life insurance is a contract of guarantee.	General insurance such as fire, marine insurance are the contracts of indemnity.
3. Element	Life insurance contains the element of protection as well as element of investment.	General insurance contains the element of protection only.
4. Insurable Interest	In life insurance the insurable interest must be present at the time of taking the policy.	In case of fire insurance the insurable interest must exist at the time of taking the policy as well as at the time of loss. In case of marine insurance the insurable interest must exist at the time of damage.
5. Coverage of	In life insurance there is no coverage	In case of fire and marine insurance

Partial loss	for partial loss.	partial protection is also offered.
6. Medical Examination	In case of life insurance medical examination of assured is necessary.	No medical examination is required in case of fire and marine insurance.
7.Fixed Premium	In life insurance the premium once fixed cannot be altered.	In general insurance the premium may be altered at the time of renewal of the policy.
8. Surrender	The assured can surrender a life insurance policy before its maturity.	In case of fire and marine policy insured cannot surrender his policy.
9. Duration	The time period for life insurance is much longer; generally it is 15-20 years.	The time period for fire and marine insurance is generally short, i.e. one year.

13. Name few life and non-life insurance companies in India.

Ans. Life Insurance Companies in India:

(i) Life Insurance Corporation of India.

(ii) Bajaj Allianz Life Insurance Co. Ltd.

(iii) Bharti Axa Life Insurance Co. Ltd.

(iv) ICICI Prudential Life Insurance Co. Ltd.

(v) Reliance Life Insurance Co. Ltd.

(vi) Tata AIG Life Insurance Co. Ltd.

(vii) Birla Sun Life Insurance Co. Ltd. etc

Non-life Insurance Companies in India

(i) Bajaj Allianz General Insurance Co. Ltd.

(ii) Bharti Axa General Insurance Co. Ltd.

(iii) ICICI Lombard General Insurance Co. Ltd.

(iv) National Insurance Co. Ltd.

(v) The New India Assurance Co. Ltd.

(vi) The Oriental Insurance Co. Ltd.

(vii) Reliance General Insurance Co. Ltd.

(viii) Tata AIG General Insurance Co. Ltd. etc.