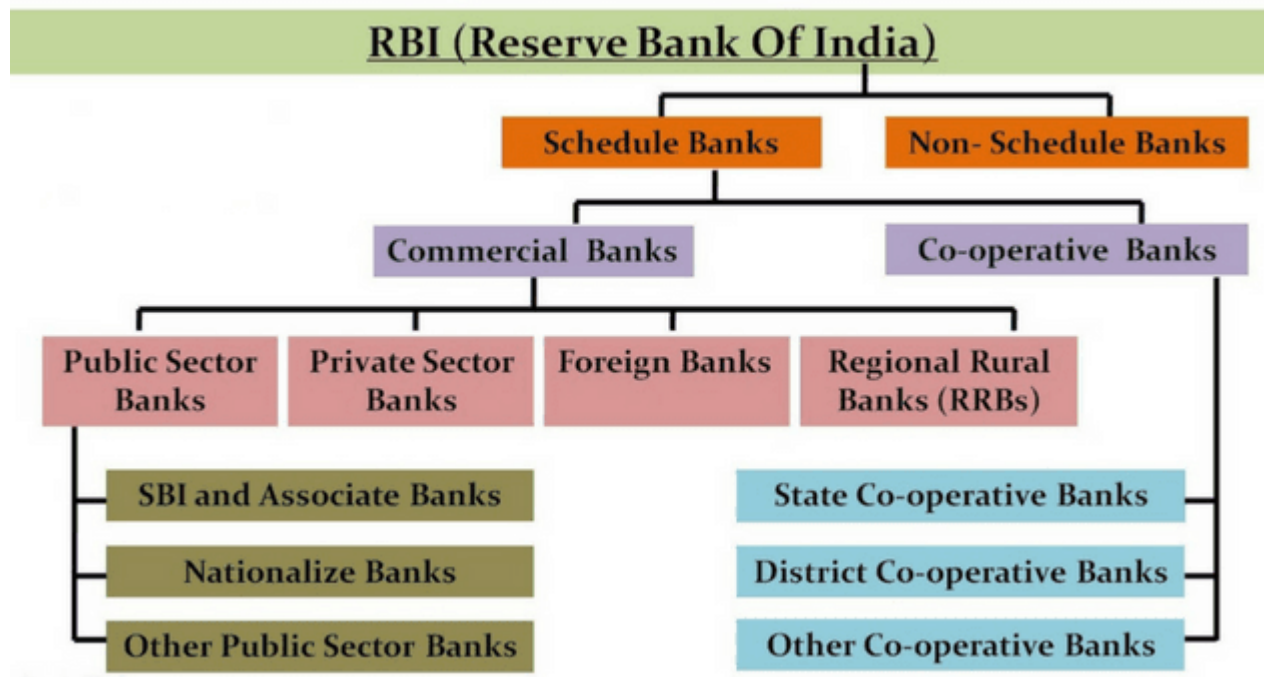


Structure of Indian Banking System is as Follows:



What salary/perks enjoyed by RBI Governor?

In the evolution of this strategic industry spanning over two centuries, immense developments have been made in terms of the regulations governing it, the ownership structure, products and services offered and the technology deployed. The entire evolution can be classified into four distinct phases.

- 1. Phase I-** Pre-Nationalisation Phase (prior to 1955)
- 2. Phase II-** Era of Nationalisation and Consolidation (1955-1990)
- 3. Phase III-** Introduction of Indian Financial & Banking Sector Reforms and Partial Liberalisation (1990-2004)
- 4. Phase IV-** Period of Increased Liberalisation (2004 onwards)

Organisational Structure

1. Reserve Bank of India:

Reserve Bank of India is the Central Bank of our country. It was established on 1st April 1935 accordance with the provisions of the Reserve Bank of India Act, 1934. It holds the apex position in the banking structure. RBI performs various developmental and promotional functions.

It has given wide powers to supervise and control the banking structure. It occupies the pivotal position in the monetary and banking structure of the country. In many countries central bank is known by different names.

For example, Federal Reserve Bank of U.S.A, Bank of England in U.K. and Reserve Bank of India in India. Central bank is known as a banker's bank. They have the authority to formulate and implement monetary and credit policies. It is owned by the government of a country and has the monopoly power of issuing notes.

2. Commercial Banks:

Commercial bank is an institution that accepts deposit, makes business loans and offer related services to various like accepting deposits and lending loans and advances to general customers and business man.

These institutions run to make profit. They cater to the financial requirements of industries and various sectors like agriculture, rural development, etc. it is a profit making institution owned by government or private of both.

Commercial bank includes public sector, private sector, foreign banks and regional rural banks:

3. Public Sector Banks:

Currently there are 21 Nationalised banks in India. The public sector accounts for 75 percent of total banking business in India and State Bank of India is the largest commercial bank in terms of volume of all commercial banks.



Image source:<http://im.hunt.in>

Now from April 1, 2017 all the 5 associate banks of SBI and Bhartiya Mahila Bank are merged with State Bank of India. After this merger now SBI is counted among the top 50 largest banks of the world.

Nationalised Banks in India are

1. Allahabad Bank
2. Andhra Bank
3. Bank of India
4. Bank of Baroda
5. Bank of Maharashtra
6. Canara Bank
7. Central Bank of India
8. Corporation Bank
9. Dena Bank
10. Indian Bank
11. Indian Overseas Bank
12. Oriental Bank of Commerce
13. Punjab & Sindh Bank
14. Punjab National Bank
15. State Bank of India
16. Syndicate Bank
17. UCO Bank
18. Union Bank of India

19. United Bank of India

20. Vijaya Bank

List of top 15 Private Sector Banks in India

4. Private Sector Banks:

The **private-sector banks in India** represent part of the **Indian banking sector** that is made up of both **private** and public **sector banks**. The "**private-sector banks**" are **banks** where greater parts of stake or equity are held by the **private** shareholders and not by government.

Image source:google

List of Private Sector Banks is:

Banks	Established
1. Axis Bank (earlier UTI Bank)	1993(as UTI Bank)
2. Bank of Punjab (actually an old generation private bank since it was not founded under post-1993 new bank licensing regime)	
3. Centurion Bank Ltd. (Merged in Bank of Punjab in late 2005 to become Centurion Bank of Punjab, acquired by HDFC Bank Ltd. in 2008)	1994
4. Development Credit Bank (Converted from Co-operative Bank, now DCB Bank Ltd.)	1995
5. ICICI Bank (previously ICICI and then both merged;total merger SCICI+ICICI+ICICI Bank Ltd)	1996
6. IndusInd Bank	1994
7. Kotak Mahindra Bank	2003
8. Yes Bank	2005
9. Balaji Corporation Bank Limited	2010

10. HDFC bank	1994
11. Bandhan bank	2015
12. IDFC Bank	2015

What is the Intake of Government in the Public Sector Banks of India?

5. Foreign Banks:

A foreign bank with the obligation of following the regulations of both its home and its host countries. Loan limits for these banks are based on the capital of the parent bank, thus allowing foreign banks to provide more loans than other subsidiary banks.

Foreign banks are those banks, which have their head offices abroad. CITI bank, HSBC, Standard Chartered etc. are the examples of foreign bank in India.

Currently India has 36 foreign banks.

6. Regional Rural Bank (RRB):

The government of India set up Regional Rural Banks (RRBs) on October 2, 1975. The banks provide credit to the weaker sections of the rural areas, particularly the small and marginal farmers, agricultural labourers, and small entrepreneurs. There are 82 RRBs in the country. NABARD holds the apex position in the agricultural and rural development. List of some RRBs is given below:

7. Co-operative Bank:

Co-operative bank was set up by passing a co-operative act in 1904. They are organised and managed on the principal of co-operation and mutual help. The main objective of co-operative bank is to provide rural credit.

The cooperative banks in India play an important role even today in rural co-operative financing. The enactment of Co-operative Credit Societies Act, 1904, however, gave the real impetus to the movement. The Cooperative Credit Societies

Act, 1904 was amended in 1912, with a view to broad basing it to enable organisation of non-credit societies.

Name of some co-operative banks India are:

1. Andhra Pradesh State Co-operative Bank Ltd
2. The Bihar State Co- operative Bank Ltd.
3. Chhatisgarh Rajya Sahakari Bank Maryadit
4. The Gujarat State Co-operative Bank Ltd.
5. Haryana Rajya Sahakari Bank Ltd.

Three tier structures exist in the cooperative banking:

- i. State cooperative bank at the apex level.
- ii. Central cooperative banks at the district level.
- iii. Primary cooperative banks and the base or local level.

Scheduled and Non-Scheduled Banks:

The scheduled banks are those which are enshrined in the second schedule of the RBI Act, 1934. These banks have a paid-up capital and reserves of an aggregate value of not less than Rs. 5 lakhs, they have to satisfy the RBI that their affairs are carried out in the interest of their depositors.

All commercial banks (Indian and foreign), regional rural banks, and state cooperative banks are scheduled banks. Non- scheduled banks are those which are not included in the second schedule of the RBI Act, 1934. At present these are only three such banks in the country.

Functions of Reserve Bank

1. Issue of Notes —The Reserve Bank has a monopoly for printing the currency notes in the country. It has the sole right to issue currency notes of various denominations except one rupee note (which is issued by the Ministry of Finance). The Reserve Bank has adopted the **Minimum Reserve System** for issuing/printing the currency notes. *Since 1957, it maintains gold and foreign exchange reserves of Rs. 200 Cr. of which at least Rs. 115 cr. should be in gold and remaining in the foreign currencies.*

2. Banker to the Government–The second important function of the Reserve Bank is to act as the Banker, Agent and Adviser to the Government of India and states. It performs all the banking functions of the State and Central Government and it also tenders useful advice to the government on matters related to economic and monetary policy. It also manages the [public debt of the government](#).

3. Banker's Bank:- The Reserve Bank performs the same functions for the other [commercial banks](#) as the other banks ordinarily perform for their customers. RBI lends money to all the commercial banks of the country.

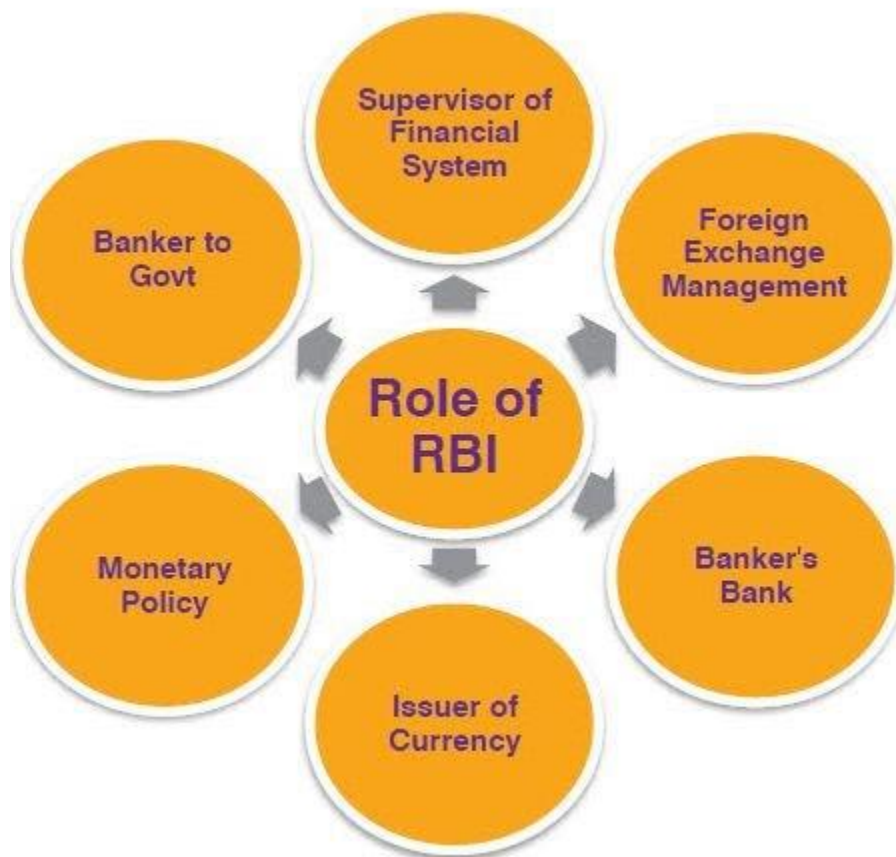
Structure of Banking Sector in India

4. Controller of the Credit:- The RBI undertakes the responsibility of controlling credit created by commercial banks. RBI uses two methods to control the extra flow of money in the economy. These methods are quantitative and qualitative techniques to control and regulate the credit flow in the country. **When RBI observes that the economy has sufficient money supply and it may cause an inflationary situation in the country then it squeezes the money supply through its tight [monetary policy](#) and vice versa.**

Where do Printing of Security Papers, Notes and Minting take Place in India?

5. Custodian of Foreign Reserves:-For the purpose of keeping the foreign exchange rates stable, the Reserve Bank buys and sells foreign currencies and also protects the country's foreign exchange funds. RBI sells the foreign currency in the foreign exchange market when its supply decreases in the economy and vice-versa. **Currently, India has a Foreign Exchange Reserve of around US\$ 487 bn.**

6. Other Functions:-The Reserve Bank performs a number of other developmental works. These works include the function of clearinghouse arranging credit for agriculture (which has been transferred to NABARD) collecting and publishing the economic data, buying and selling of Government securities (gilt edge, treasury bills etc)and trade bills, giving loans to the Government buying and selling of valuable commodities etc. It also acts as *the representative of the Government in the [International Monetary Fund \(I.M.F.\)](#) and represents the membership of India.*



The new department constituted in RBI:- On July 6, 2005, a new department, named [financial market department](#) in reserve bank of India was constituted for surveillance on financial markets.

This newly constituted dept. will separate the activities of debt management and monetary operations in the future. This department will also perform the duties of developing and monitoring the instruments of the money market and also monitoring the government securities and foreign money markets.

So it can be concluded that as soon as our country is growing the role of RBI is going to be very crucial in the upcoming years.

1. BACKGROUND

National Bank for Agriculture and Rural Development (NABARD) was established on 12 July 1982 by an Act of the Parliament. NABARD, as a Development Bank, is mandated for providing and regulating credit and other facilities for the promotion and development of agriculture, small scale industries, cottage and village industries, handicrafts and other rural crafts and other allied economic activities in rural areas with a view to promoting

integrated rural development and securing prosperity of rural areas, and for matters connected therewith or incidental thereto.

2. VISION

Development Bank of the Nation for Fostering Rural Prosperity.

3. MISSION

Promote sustainable and equitable agriculture and rural development through participative financial and non-financial interventions, innovations, technology and institutional development for securing prosperity.

4. OWNERSHIP

NABARD is wholly owned by Government of India.

5. ORGANISATIONAL SET UP

NABARD, with its Head office at Mumbai, has 31 Regional Offices located in States and Union Territory, a cell at Srinagar, 03 Training Establishments, at Lucknow, Bolpur & Mangalore and 423 District Development Managers functioning at district level. NABARD has 2481 professionals supported by 1312 other staff. (Data pertains to 31 March 2019).

6. FUNCTIONS AT A GLANCE

The major functions of NABARD include promotion and development, refinancing, financing, planning, monitoring and supervision.

Non-credit related:

- Credit Planning and Monitoring, Coordination with various agencies and institutions.
- Assist in policy formulation of Govt, RBI and State Governments on matters related to agricultural credit and rural development
- Institutional development and capacity building of Cooperatives and Regional Rural Banks (RRBs) to strengthen the rural credit delivery system. Statutory inspection of Regional Rural Banks (RRBs), State Cooperative Banks and District Central Cooperative Banks (DCCBs), voluntary inspection of State Cooperative Agriculture and Rural Development Banks (SCARDBs) and their off-site surveillance
- Promotional and developmental initiatives in the areas of farm, off-farm, micro finance, financial inclusion, Convergence with Govt sponsored programmes.
- Supporting the financial inclusion efforts of Regional Rural Banks and Cooperative Banks
- Thrust on promotion of livelihood opportunities and Micro Enterprises
- Capacity Building of Personnel and Board Members of Credit Cooperatives and Staff of Rural Financial Institutions.
- Support to research and development, rural innovations, etc.

Credit related:

- Refinance to Rural Financial Institutions for investment credit (long term loan) and production and marketing credit (short term loan) purposes for farm and off-farm activities in rural areas.
- Loans to State Governments for developing rural infrastructure and strengthening of the Cooperative Credit Structure
- Loans for warehousing infrastructure to State Governments, State/ Central government Owned/ assisted entities, Cooperatives, Federation of cooperatives, Farmers' Producers Organizations,(FPOs), Federations of Farmers' Collectives, Primary Agricultural Credit Societies (PACS) / Cooperative Marketing Societies (CMS) or similar institutions, Corporates/ Companies, Individual entrepreneurs, etc.,
- Direct lending to Cooperatives and Producers' Organization, support to State owned institutions /corporations under NABARD Infrastructure Development Assistance and direct lending to individuals, partnership firms, corporates, NGOs, MFIs, Farmers' collectives etc. under Umbrella Programme for Natural Resource Management (UPNRM)
- Pass through agency of select Government of India Capital Investment Subsidy Schemes.

7. PARTNER INSTITUTIONS/CLIENTS

Credit related

- Scheduled Commercial Banks
- State Governments
- State Owned Bodies and Corporations
- Regional Rural Banks
- State Cooperative Banks
- District Central Cooperative Banks
- State Cooperative Agriculture & Rural Development Banks
- Scheduled Urban Cooperative Banks
- Non-Banking Finance Companies
- Farmers' Collectives and Producers' Organisation
- Corporates/ Companies, individual entrepreneurs, SPV under PPP mode, etc, for projects under Warehouse Infrastructure Fund.

Development Oriented

- Rural Financial Institutions
- NGOs and Voluntary Agencies
- Development and Self Employment Training Institutions
- Self-Help Groups
- Rural Innovators
- Joint Liability Groups
- Farmers' Clubs
- Research Organisations

Timelines for Processing of Applications

Grievance Redressal Mechanism

General Grievances from public are attended to by the Corporate Planning Department at Head Office, Mumbai. (Tel No. 022- 26530106).

The grievances pertaining to Customer Services of Cooperative Banks (other than Urban Cooperative Banks) and Regional Rural Banks (RRBs) are being attended to by the Department of Supervision, Corporate Office, Head Office, Mumbai (022-26541834)

NABARD receives VIP references directly from various ministries of GoI. VIP references are replied on priority. All other complaints received directly or through Public Grievance Portal are to be disposed within 60 days as per GoI guidelines

Structure and Functions of the Regional Rural Banks!

The Regional Rural Banks (RRBs) aimed at providing credit and other facilities to the small and marginal farmers, agricultural labourers, artisans and small entrepreneurs in rural areas.

ADVERTISEMENTS:

The RRB Act, 1986, empowers the Central Government to establish in a State or Union Territory one or more RRBs when any sponsor bank makes such a request. The sponsor bank assists the RRB in many ways by subscribing to its share capital, by helping in its establishment, by assisting in recruitment and training of its cadre, and in general providing such managerial and financial assistance sought by the RRB.

The RRB functions within the local limits as specified by government notification. It can have its branches at any place as notified by the government.

Structure and Organisation of the RRB:

The authorised capital of an RRB is fixed at Rs. 1 crore and its issued capital at Rs. 2 lakhs. Of the issued capital, 50 per cent is to be subscribed by the Central Government, 15 per cent by the concerned State Government and the rest 35 per cent by the sponsoring bank.

The working and affairs of the RRB are directed and managed by a Board of Directors consists of a Chairman, three directors to be nominated by the Central Government, and not more than two directors to be nominated by the State Government concerned, and not more than 3 directors to be nominated by the sponsoring bank. The chairman is appointed by the Central Government and his term of office does not exceed five years.

Functions of the RRB:

ADVERTISEMENTS:

The functions of the RRB are as follows:

(1) Granting of loans and advances to small and marginal farmers and agricultural labourers, whether individually or in groups, and to co-operative societies, agricultural processing societies, co-operative farming societies, primarily for agricultural purposes or for agricultural operations and other related purposes;

(2) Granting of loans and advances to artisans, small entrepreneurs and persons of small means engaged in trade, commerce and industry or other productive activities within its area of co-operation; and

(3) Accepting deposits.

Types & Function of Cooperative Banks in India

TYPES / FUNCTION OF CO-OPERATIVE BANKS IN INDIA

The co-operative banks are small-sized units which operate both in urban and non-urban centers. They finance small borrowers in industrial and trade sectors besides professional and salary classes. Regulated by the Reserve Bank of India, they are governed by the Banking Regulations Act 1949 and banking laws (co-operative societies) act, 1965. The co-operative banking structure in India is divided into following 5 categories:

Primary Co-operative Credit Society

The primary co-operative credit society is an association of borrowers and non-borrowers residing in a particular locality. The funds of the society are derived from the share capital and deposits of members and loans from central co-operative banks. The borrowing powers of the members as well as of the society are fixed. The loans are given to members for the purchase of cattle, fodder, fertilizers, pesticides, etc.

Central Co-operative Banks

These are the federations of primary credit societies in a district and are of two types-those having a membership of primary societies only and those having a membership of societies as well as individuals. The funds of the bank consist of share capital, deposits, loans and overdrafts from state co-operative banks and joint stocks. These banks provide finance to member societies within the limits of the borrowing capacity of societies. They also conduct all the business of a joint stock bank.

State Co-operative Banks

The state co-operative bank is a federation of central co-operative bank and acts as a watchdog of the co-operative banking structure in the state. Its funds are obtained from share capital, deposits, loans and overdrafts from the Reserve Bank of India. The state co-operative banks lend money to central co-operative banks and primary societies and not directly to the farmers.

Land Development Banks

The Land development banks are organized in 3 tiers namely; state, central, and primary level and they meet the long term credit requirements of the farmers

for developmental purposes. The state land development banks oversee, the primary land development banks situated in the districts and tehsil areas in the state. They are governed both by the state government and Reserve Bank of India. Recently, the supervision of land development banks has been assumed by National Bank for Agriculture and Rural development (NABARD). The sources of funds for these banks are the debentures subscribed by both central and state government. These banks do not accept deposits from the general public.

Urban Co-operative Banks

The term Urban Co-operative Banks (UCBs), though not formally defined, refers to primary co-operative banks located in urban and semi-urban areas. These banks, till 1996, were allowed to lend money only for non-agricultural purposes. This distinction does not hold today. These banks were traditionally centered on communities, localities, work place groups. They essentially lend to small borrowers and businesses. Today, their scope of operations has widened considerably.

The origins of the urban co-operative banking movement in India can be traced to the close of nineteenth century. Inspired by the success of the experiments related to the co-operative movement in Britain and the co-operative credit movement in Germany, such societies were set up in India. Co-operative societies are based on the principles of cooperation, mutual help, democratic decision making, and open membership. Co-operatives represented a new and alternative approach to organization as against proprietary firms, partnership firms, and joint stock companies which represent the dominant form of commercial organization. They mainly rely upon deposits from members and non-members and in case of need, they get finance from either the district central co-operative bank to which they are affiliated or from the apex co-operative bank if they work in big cities where the apex bank has its Head Office. They provide credit to small scale industrialists, salaried employees, and other urban and semi-urban residents.

Functions of Co-operative Banks

Co-operative banks also perform the basic banking functions of banking but they differ from commercial banks in the following respects

1. Commercial banks are joint-stock companies under the companies' act of 1956, or public sector bank under a separate act of a parliament whereas co-operative banks were established under the co-operative society's acts of different states.
2. Commercial bank structure is branch banking structure whereas co-operative banks have a three tier setup, with state co-operative bank at apex level, central / district co-operative bank at district level, and primary co-operative societies at rural level.
3. Only some of the sections of banking regulation act of 1949 (fully applicable to commercial banks), are applicable to co-operative banks, resulting only in partial control by RBI of co-operative banks and
4. Co-operative banks function on the principle of cooperation and not entirely on commercial parameters.

Problems of Co-operative Banks

Duality of control system of co-operative banks

However, concerns regarding the professionalism of urban co-operative banks gave rise to the view that they should be better regulated. Large co-operative

banks with paid-up share capital and reserves of Rs.1 lakh were brought under the purview of the Banking Regulation Act 1949 with effect from 1st March, 1966 and within the ambit of the Reserve Bank's supervision. This marked the beginning of an era of duality of control over these banks. Banking related functions (viz. licensing, area of operations, interest rates etc.) were to be governed by RBI and registration, management, audit and liquidation, etc. governed by State Governments as per the provisions of respective State Acts. In 1968, UCB's were extended the benefits of deposit insurance.

Towards the late 1960s there was debate regarding the promotion of the small scale industries. UCB's came to be seen as important players in this context. The working group on industrial financing through Co-operative Banks, (1968 known as Damry Group) attempted to broaden the scope of activities of urban co-operative banks by recommending these banks should finance the small and cottage industries. This was reiterated by the Banking Commission in 1969.

The Madhavdas Committee (1979) evaluated the role played by urban co-operative banks in greater details and drew a roadmap for their future role recommending support from RBI and Government in the establishment of such banks in backward areas and prescribing viability standards.

The Hate Working Group (1981) desired better utilization of bank's surplus funds and that the percentage of the Cash Reserve Ratio (CRR) & the Statutory Liquidity Ratio (SLR) of these banks should be brought at par with commercial banks, in a phased manner. While the Marathe Committee (1992) redefined the viability norms and ushered in the era of liberalization, the Madhava Rao Committee (1999) focused on consolidation, control of sickness, better professional standards in urban co-operative banks and sought to align the urban banking movement with commercial banks.

A feature of the urban banking movement has been its heterogeneous character and its uneven geographical spread with most banks concentrated in the states of Gujarat, Karnataka, Maharashtra, and Tamil Nadu. While most banks are unit

banks without any branch network, some of the large banks have established their presence in many states when at their behest multi-state banking was allowed in 1985. Some of these banks are also Authorized Dealers in Foreign Exchange.

During your preparation for various Government Recruitment Exams, it is important that you study & get well-versed with Current Affairs & General Awareness. Being aware of your surroundings will help you score more marks in your exams. It is crucial that you be familiar with Banking & Finance terms & have a basic knowledge about RBI, to begin with. Read the article on Roles & Functions of Reserve Bank of India. Know all details on the Probationary, Supervisory Role, the Organisational Structure & more!

Table of Contents

- [Roles & Functions of RBI – Introduction](#)
- [Preamble Of The RBI](#)
- [Organizational Structure of RBI:](#)
- [Functions of RBI in Indian Banking System](#)
- [The RBI's Role In Current Scenario](#)
- [RBI's Role in Economic Development](#)
- [RBI's Role in Promoting Schemes And Policies](#)
- [Supervisory Functions of RBI](#)
- [Prohibitory Functions of RBI](#)
- [RBI Functions – General Terms](#)

Roles & Functions of RBI – Introduction

India is one of the **fastest growing economies** in the world, with a population over 1.2 Billion, has become the hub for global investment. There are various factors that influence and control Indian economy, one such being, The RBI, **one of the oldest institution** behind the success of our economy.

The **RBI is the guardian of Indian economy** and because of it, growth in Exports, FOREX, Capital Markets and other sectors of the economy are all taking place at a healthy rate. It plays a pivotal role in strengthening, developing and diversifying the country's economic and financial structure. It is the apex bank in the **Indian Banking System**.

Structure Of The Indian Banking System

1. Reserve banks of India.

2. Indian Scheduled Commercial Banks.

- State Bank of India and its associate banks.
- Twenty nationalized banks.
- Regional rural banks.
- Other scheduled commercial banks.

3. Foreign Banks

4. Non-scheduled banks.

5. Co-operative banks.

The Reserve Bank of India (RBI) is **India's Central banking institution**, which controls the monetary policy of the Indian rupee. The Reserve Bank of India was established on April 1, 1935, in accordance with the provisions of the Reserve Bank of India Act, 1934. It was initially privately owned and managed but since nationalisation in 1949, the Reserve Bank is fully owned by the Government of India.

Preamble Of The RBI

The Preamble of the Reserve Bank of India describes the basic Functions of Reserve Bank of India as: *“to regulate the issue of Bank notes and keeping of reserves with a view to securing monetary stability in India and generally to operate the currency and credit system of the country to its advantage; to have a modern monetary policy framework to meet the challenge of an increasingly complex economy, to maintain price stability while keeping in mind the objective of growth.”*

The RBI has four zonal offices at:

1. Chennai
2. Delhi
3. Kolkata
4. Mumbai

It has 20 regional offices and 11 Sub-offices.

Organizational Structure of RBI:

- The Reserve Bank’s affairs are governed by a central board of directors. The board is appointed by the Government of India for a period of four years.
- **Full-time officials:** Governor and not more than four Deputy Governors. The current Governor of RBI is **Mr Shaktikanta Das**.
- There are **4 Deputy Governors, Mr B.P. Kanungo, N. S. Vishwanathan, M. K. Jain**.
- **Nominated by Government:** ten Directors from various fields and two government Officials
- Others: **four Directors** – one each from four local boards.

Functions of RBI in Indian Banking System

1. **Monetary Authority:** It decides how much money is needed to be supplied to the economy in order to stabilize the exchange rate, maintaining good balance of payment, attain financial stability, control inflation, strengthening the core banking system.
2. **The issuer of currency:** It has the sole authority in India to issue currency. It also takes action to control the circulation of fake currency.
3. **The issuer of Banking License:** As per Sec 22 of Banking Regulation Act, a bank cannot start functioning without obtaining license from the Reserve Bank Of India.
4. **Banker’s to the Government:** It acts as banker both to the central and the state governments. It provides short-term credit. It manages all new issues of government loans, servicing the government debt outstanding and nurturing the market for government’s securities. It advises the government on banking and financial subjects.
5. **Banker’s Bank:** RBI is the bank of all banks in India as it provides the loan to banks/bankers, rediscount the bills of banks and accept the deposit of banks.
6. **Lender of last resort:** The banks can borrow from the RBI by keeping eligible securities as collateral at the time of need or crisis.
7. **Banker and debt manager of government:** RBI keeps deposits of Governments without charging any interest, receives and makes the payment, carry exchange remittances, and help to float new loans and manage public debt, it also acts as an advisor to Government.

8. **Money supply and Controller of Credit:** To control demand and supply of money in Economy by Open Market Operations, Credit Ceiling, etc. RBI has to match the credit requirements of the rest of the banking system. It needs to maintain price stability and a high rate of economic growth.
9. **Act as clearinghouse:** For the settlement of banking transactions, RBI manages 14 clearing houses. It facilitates the exchange of instruments and processing of payment instructions.
10. **Manager of foreign exchange:** It acts as a custodian of FOREX. It administers and enforces the provision of Foreign Exchange Management Act (FEMA), 1999. RBI buys and sells foreign currency to maintain the exchange rate of Indian rupee v/s foreign currencies.
11. **Regulator of Economy:** It controls the money supply in the system, monitors different key indicators like GDP, Inflation, etc.
12. **Managing Government securities:** RBI administers investments in institutions when they invest specified minimum proportions of their total assets/liabilities in government securities.
13. **Regulator and Supervisor of Payment and Settlement systems:** The Payment and Settlement systems Act of 2007 (PSS Act) gives RBI oversight authority for the payment and settlement systems in the country. RBI focuses on the development and functioning of safe, secure and efficient payment and settlement mechanisms.
14. **Developmental Role:** This role includes the development of the quality of banking system in India and ensuring that credit is available to the productive sectors of the economy. It provides a wide range of promotional functions to support national objectives. It also includes establishing institutions designed to build the country's financial infrastructure. It also helps in expanding access to affordable financial services and promoting financial education and literacy
15. **Publisher of monetary data and other data:** RBI maintains and provides all essential banking and other economic data, formulating and critically evaluating the economic policies in India. RBI collects, collates and publishes data regularly.
16. **Exchange manager and controller:** RBI represents India as a member of the International Monetary Fund [IMF]. Most commercial banks are authorized dealers of RBI
17. **Banking Ombudsman Scheme:** RBI introduced the Banking Ombudsman Scheme in 1995. Under this scheme, the complainants can file their complaints in any form, including online and can also appeal to the RBI against the awards and the other decisions of the Banking Ombudsman
18. **Banking Codes and Standards Board of India:** To measure the performance of banks against Codes and standards based on established global practices, the RBI set up the Banking Codes and Standards Board of India (BCSBI).
19. **Fair Practices Codes For Lenders:-** RBI formulated the Fair Practices Code for Lenders which was communicated to banks to safeguard the interest of the borrowers. All the banks are supposed to follow the codes formulated by RBI.

- 20. Miscellaneous Functions:** The RBI collects, collates and publishes all monetary and banking data regularly in its weekly statements in the RBI Bulletin (monthly) and in the Report on Currency and Finance.
- 21. Provision of Industrial Finance:** Rapid industrial growth is the key to the development of the economy. Providing adequate and timely credit to small, medium and large industry is very important. The RBI has played a pivotal role in setting up special financial institutions such as IDBI Ltd, ICICI and EXIM BANK etc.
- 22. Provisions of Training:** The RBI has always tried to provide essential training to the staff of the banking industry. The RBI has set up the bankers' training colleges at several places. National Institute of Bank Management i.e NIBM, Bankers Staff College i.e BSC and College of Agriculture Banking i.e CAB are few to mention. The RBI's Role In Current Scenario

The role of RBI in Indian economy has changed according to the scenario in the country. In April 2019 the RBI took the monetary policy decision to lower its borrowing rate to 6%. This was the second rate cut for 2019 and is expected to have a positive impact on the borrowing rate across the credit market more substantially. Prior to April, credit rates in the country have remained relatively high, despite the central bank's positioning, which has been limiting borrowing across the economy. The central bank must also grapple with a slightly volatile inflation rate that is projected at 2.4% in 2019, 2.9% to 3% in the first half of 2020, and 3.5% to 3.8% in the latter half of 2020.

RBI's Role in Economic Development

RBI's role in the economy is pivotal as it makes or breaks the economy. Below mentioned are the areas where RBI plays an important role

1. Development of banking system
2. Development of financial institutions
3. Development of backward areas
4. Bringing Economic stability
5. Facilitating Economic growth
6. Preparing Proper interest rate structure

RBI's Role in Promoting Schemes And Policies

Introducing schemes and policies which benefit the public as well as the government is one of the important function of RBI. Below mentioned are the sector RBI prioritizes for economic development

1. Promotion of commercial banking
2. Promotion of cooperative banking
3. Promotion of industrial finance
4. Promotion of export finance
5. Promotion of credit guarantees
6. Promotion of differential rate of interest scheme
7. Promotion of credit to priority sections including rural & agricultural sector
8. Promotion of credit to weaker sections

Supervisory Functions of RBI

1. Providing license to banks & keeping a control on the number of new branches
2. Doing periodical inspection of banks
3. Controlling Non-Bank Financial Institutions: The Non- Bank Financial Institutions are not influenced by the working of a monetary policy. RBI has a right to issue directives to the NBFIs regarding their functioning.
4. Implementation of the Deposit Insurance Scheme: In order to protect the deposits of small depositors, RBI work to implement the Deposit Insurance Scheme in case of a bank failure. (For bank deposits below 1 Lakh.)

Prohibitory Functions of RBI

1. It cannot provide any direct financial assistance to any industry, trade or business
2. It cannot purchase its own share
3. It cannot purchase shares of any commercial and industrial undertaking
4. It cannot purchase any immovable property
5. It cannot give loans on the security of shares and property

RBI Functions – General Terms

- **Monetary policy** refers to the use of regulatory tools under the control of the RBI in order to regulate the availability, cost and use of money and credit.
- **Cash Reserve Ratio (CRR):** Banks are required to hold a certain proportion of their deposits in the form of cash with RBI. RBI uses CRR either to drain excess liquidity from the economy or to release additional funds needed for the growth of the economy.
- **Statutory Liquidity Ratio (SLR):** SLR is the amount that commercial banks are required to maintain in the form of gold or government approved securities before providing credit to the customers.
- **Repo Rate:** The rate at which the RBI loans out money to commercial banks is called Repo Rate. Whenever banks face limitation of funds they can borrow from the RBI, against securities. If the RBI increases the Repo Rate, borrowing becomes quite expensive for banks and vice versa. As a tool to control inflation, RBI increases the Repo Rate, making it more expensive for the banks to borrow from the RBI with a view to restricting the availability of money. Similarly, the RBI will do the exact opposite in a deflationary environment.
- **Reverse Repo Rate:** The rate at which the RBI is willing to borrow from the commercial banks is called reverse repo rate. If the RBI increases the reverse repo rate, it means that the RBI is willing to offer good interest rate to banks to deposit their money with the RBI. This results in a decrease in the amount of money available for banks customers as banks prefer to deposit their money with the RBI as it guarantees higher security. This naturally leads to a higher rate of interest which the banks will demand from their customers for lending money to them.
The Repo Rate and the Reverse Repo Rate are important tools with which the RBI can control the availability and the supply of money in the economy.

Fiscal Policy: It is related to direct taxes and government spending. When direct taxes increases and spending of government increases than the disposable Income of the people reduces and hence the demand reduces.

- On the basis of an assessment of the current and evolving macroeconomic situation at its meeting today, the Monetary Policy Committee (MPC) decided to keep the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 5.15 percent.
- Consequently, the reverse repo rate under the LAF remains at 4.90 percent, and the marginal standing facility (MSF) rate and the Bank Rate at 5.40 percent.
- The decision of the MPC is consistent with a neutral stance of monetary policy in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4 percent within a band of +/- 2 percent while supporting growth

Policy Repo Rate	Reverse Repo Rate	Marginal Standing Facility Rate	Bank Rate	CRR	SLR	Base Rate	MCLR	Savings Deposit Rate	Term Deposit Rates > 1 year
5.45%	4.90%	5.40%	5.40%	4%	19.5%	8.95%- 9.45%	7.70%- 8.05%	3.50% – 4.00%	6.00%- 6.75%

Now that you know in detail about Roles & Functions of Reserve Bank of India, read more such articles on General Knowledge & Current Affairs which are important from exam point of view

What are the main duties and functions of the Ministry of Finance?

The Ministry of Finance must manage government financial assets, propose economic and financial policy, and coordinate and supervise these actions as empowered by law. Its main duties and functions are to:

- Prepare the annual fiscal budget and issue adequate regulations for its execution.
- Manage government financial assets.
- Propose bills related to the management of government employees, particularly bills related to staffing, salaries, benefits and pensions.
- Amortize debt and coordinate financial activities carried out within the scope of its power, for the different ministries and their related entities.
- Be aware of and report on any initiative of a financial nature involving public expenditure and indebtedness before it is debated by Congress.
- Participate in the negotiation of international free trade and financial agreements.
- Exercise all powers and rights as conferred on it in the Central Bank Law.

Bank Marketing Strategies for 2018

Updated March 2018.

In 2018, consumers have more options than ever to consider when choosing a bank. Online-only options like [Simple](#) and extra convenient services like Chase's [no card ATMs](#) are disrupting the market and calling for retail banking executives to get more creative with bank marketing ideas.

We realize pushing through competitor messages can be tough, so we talked with bank marketing and branding experts Josh Mabus of [The Mabus Agency](#), Dan Brill of [Brill Creative & HyperDrive](#), and Peter Jacobs of [Shark Communications](#) to get their expert advice.

Here are 9 bank marketing ideas to help you attract and retain customers and establish a unique position in the marketplace in 2018.

1. Blogging

A blogging strategy for your bank can increase traffic to your site, build your social media profiles, and establish expertise.

Take some of the most asked questions or most voiced concerns from your customers, and turn them into helpful articles on your blog. Use these to feed your social media profiles and provide another platform for customer service. To produce a well designed, SEO-optimized blog that meets the needs of your customers, remember these important aspects:

1.
 1. Deliver a great user experience
1.
 1. Provide a call to action that ties in your services
1.
 1. Font, color, and content should stay connected with your bank's brand
1.
 1. Use images and videos to diversify content
1. Establish a consistent and easily readable post format

2. Social Media

Social media is a must-use tool to market your bank and establish a brand presence amongst your competitors. However, social media should be used to engage your followers with useful, relevant information — [not simply to sell](#).

[87 percent](#) of consumers say that most banks on social media are “annoying, boring, or unhelpful.” You can avoid these stigmas by making sure your strategy doesn’t reflect these common mistakes:

1. Only creating content that is self-promoting
2. Posting infrequently or irregularly
3. Not preparing for negative customer feedback ([tips on this here](#))
4. Broadcasting the same message across all channels (Facebook, Twitter, Instagram, etc)

“The most successful advertising (no matter the medium) facilitates word of mouth in two ways: 1. It makes your audience talk. 2. It tells them what to say.” – Josh Mabus, The Mabus Agency

Commonwealth Bank is one of Social Times’ “[Top Banks on Social Media](#).” They develop interesting original content to tell their brand story and connect with their customers. In this Facebook video, “[The Psychology of Savings](#),” Commonwealth has crafted a message around a helpful practice to start saving more money.

Banks should aim to create content that is interesting, engaging, and most of all shareable.

3. Customer Service

Exceptional customer service can be built into your marketing strategy and ultimately used to boost your brand image.

To support their customer-first approach, TD Bank created a campaign called [#TDThanksYou](#) to solidify themselves as a bank that knows and appreciates their customers. Their team captured customer reactions to unexpected service which resulted in a viral video on their social media profiles.

“A great brand image helps to define a bank more distinctly in the marketplace, more importantly, it can create a sense of perceived value in the minds of consumers which often equates to profitability over the long haul” – Peter Jacobs, Shark Communications

4. Digital Media

Your customers are connected to digital media like never before. Take advantage of graphics, videos, audio (radio or podcast), and web pages to innovatively engage with your customers. With digital media, you can develop content marketing strategies to connect with customers and position your bank for the best kind of marketing: word of mouth.

When the mortgage crisis arose in 2012, Fifth Third strategically used digital media to help communicate their brand values and then incorporated social media to encourage customers to share those values organically.

They launched “[Retweet To Reemploy](#)” where customers who had lost jobs and were unable to make mortgage payments could connect with new employment opportunities. They incorporated interactive graphics and videos to build a website for the campaign and then asked people to retweet participant profiles to boost their chances of getting hired. “Building a strong bank brand often requires more thought towards strategy, creativity, and innovation to effectively drive consumer engagement and to maximize the advantages of today’s digital media channels and display opportunities.” – Peter Jacobs, [Shark Communications](#).

5. Digital Signage

With digital signage, your displays do the selling for you so you don't have to. Use well-placed displays to show graphics and videos that promote your latest services or tutorials for your latest products. Take fun photos of your best employees and pair them with a call to action like, "Ask Tracy for more information on consolidating your student loans."

Giving customers something to engage with while they wait to be serviced will improve your branch experience. Show content like the local weather, public transportation routes, traffic updates, live news feeds of top financial blogs, or your own blog feed.

You can leverage digital signage in your branches to support many of the marketing ideas covered in this post. When launching online campaigns (such as Fifth Third's "Retweet to Reemploy,") use those same assets for content on your displays. This reinforces your

overall brand image to your customers, while also positioning you as a tech-savvy financial institution.

6. Non-Traditional Rewards Programs

When designing a rewards program for your customers, consider these three primary goals:

1. Increasing loyalty (when consumers become committed to your brand and make repeat purchases over time.)
2. Extending retention; and
3. Cross-promoting services and products

Chime offers a unique rewards program that aims to achieve these objectives. For every amount that you spend using your debit card, Chime rounds the total up to the nearest dollar, then automatically deposits the difference into your [Chime savings account](#).

This system achieves customer loyalty by encouraging consistent use of your debit card, which most customers in 2018 do anyway. Retention is influenced because the longer you stay with the bank, the more free money you earn. Lastly, this rewards program provides the perfect opportunity to cross-promote both their checking and savings accounts.

"Banks have a broad choice in their marketing plans: Attract and acquire customers with price-based promotions, or develop new customer relationships with a more brand-based strategy." – Peter Jacobs, [Shark Communications](#)

7. Strategic Partnerships

Partner up with organizations that share the values of your customer base. This could be through entertainment companies, real estate agencies, or nonprofits.

For example, Citibank partners with concert promoter Live Nation to provide pre-sale concert tickets and special offers to popular shows. You simply use your Citibank credit card during checkout to [redeem the perks](#).

Connecting with partners and crafting strategic programs like this positions your bank distinctively among competitors.

"Banks must realize that they offer parity services and potential customers have an extremely difficult time differentiating between banks." – Josh Mabus, [The Mabus Agency](#)

Tip: Use compelling graphics on your digital signage to communicate current partnerships and promotions with branch visitors 24/7.

8. Nurture Customer Data

Data will give you clear insight into your existing customer base. With data you can better understand behavior patterns and offer relevant deals that fit within your customer's daily lives.

“Instead of worrying about checking off their social media to-do list, or jumping on board with the latest and greatest technology, banks need to leverage their data to better understand and serve their existing client base.

We see an incredible opportunity for banks to deliver much more personalized, relevant and timely messages to their current customers.

We often get so excited about using technology that we forget about the human beings on the other end. Better to understand and nurture what you have than to always be looking for more.” — Dan Brill, [Creative Evangelist](#)

Here is an example of how banks can effectively use big data to improve the customer experience, increase retention, and create new streams of revenue.

Pro Tip: Internally display your data synopsis using [digital signage](#) and keep your employees informed and aligned with bank goals.

9. Community Initiatives

Customers look to their banks for ideas on how to manage their personal finances. Instead of simply offering a pamphlet with this information, organize monthly workshops open to the public. Here are a few topics that would be interesting:

1. Financial Planning For New Parents
2. Smart Savings to Homeownership
3. Getting The Most From Your Credit Cards
4. Wealth Management and Investing

of Technology in Banking Industry

The banking sector has welcomed the use of software to support its clients more efficiently and to do more with less. Emerging technologies have transformed the banking industry from paper-based banks and branches into digitized and networked banking services. Unlike before, broadband internet is inexpensive, making it easy and first to transfer data. Technology has altered the banks' accounting and management software. The accounting and management framework of all banks has been modified by technology. And the way banks offer services to their clients is now evolving. This technology comes with a cost though, it has been expensive to implement all this technology, but the incentives are boundless. **Below I've mentioned some of the banking industry's technology positions.**

I. E-banking:

This allows the bank to provide its services to its high-end customers with ease. Banks have used a Graphical User Interface (GUI) to make the system user friendly to all customers, with this software, consumers can access their bank details of their own computer systems, make a profit transfers from one account to another, print bank statements and ask about their financial transactions. Electronic Data Interchange (EDI) is another application used by banks to exchange data between banks and customers; this program can be used to transfer business transactions in a computer-readable form. The user on the other end will therefore be able to clearly read the information.

II. NRI Banking Services:

In countries such as India, USA, UAE, this technology has been adopted, only to name a few. Because many people go to work abroad, they want to help their families. Technology has made it easy for them to transfer money quickly to their loved ones.

III. Rural Banking:

Unlike in the past when banks are concentrated in urban areas, the technology of today has made it easy to set up banking infrastructure in rural areas. For example: Mobile money banking facilities were introduced throughout Africa. In this situation, a client in a rural area will have a mobile company account that is opened free of charge. We can then transfer money into that account through a nearby operations center for mobile money. At any time in that area, this money can be withdrawn and they can receive or send money using the same system as well.

III. Plastic money:

Credit cards or smart cards such as VISA ELECTRON made the banking sector more flexible than ever before. A customer can borrow a specific amount of money from the bank to buy anything with a credit card, and the bank bills them later. We don't have to go through the trouble of lending small money in this case. Instead, with "smart cards" such as visa electron, a customer can pay for anything using that card and cash is automatically deducted from their bank accounts, they can also use the same card to deposit or withdraw money from their accounts using an ATM machine.

IV. Self-Inquiry facility:

Instead of lining up customers or going to the help desk, all branches have been provided by banks with simple self-inquiry systems. A customer can use his ATM card to know the balance of his account or to obtain his bank statement. On both sides, this saves time.

V. Remote banking:

Banks have ATM machines built in different areas; this ensures that a customer does not have to go to the main branch to make transactions. This facility has also allowed banking at all times, as customers can deposit money on their accounts using ATM machines. Remote banking has helped rural people improve their money-saving culture.

VI. Centralized Information results to quick services:

This helps banks to quickly move data from one branch to another. For example, when a customer registers their

account with a rural branch, they will still get their account information when in an urban area at the main branch.

VII. Signature retrieval facilities:

Innovation has been influential in reducing bank fraud that protects its customers. For example, banks are using a technology that verifies signatures before a customer withdraws large amounts of money on a particular account and this reduces the errors or risks that may arise due to forgery.

You can expand on this list with their many other applications of innovation in the banking sector.

Unit—2

What is Asset Liability Management or What is ALM ?

Asset liability management (ALM) can be defined as the comprehensive and dynamic framework for measuring, monitoring and managing the financial risks associated with changing interest rates, foreign exchange rates and other factors that can affect the organisation's liquidity.

ALM relates to management of structure of balance sheet (liabilities and assets) in such a way that the net earning from interest is maximised within the overall risk-preference (present and future) of the institutions.

Thus the ALM functions includes the tools adopted to mitigating liquidity risk, management of interest rate risk / market risk and trading risk management. In

short, ALM is the sum of the financial risk management of any financial institution.

In other words, ALM is all about managing three central risks:

- Interest Rate Risk
- Liquidity Risk
- Foreign currency risk

For banks with forex operations, it also includes managing

- Currency risk

Through ALM banks try to match the assets and liabilities in terms of Maturities and Interest Rates Sensitivities so as to minimize the interest rate risk and liquidity risk.

Overview of what are asset liability mismatches :

The Assets and Liabilities of the bank's B/Sheet are nothing but future cash inflows & outflows. Under Asset Liability Management i.e. ALM, these inflows & outflows are grouped into different time buckets. Then each bucket of assets is matched with the corresponding bucket of liability.

The differences in each bucket are known as mismatches.

Is complete matching of Assets & Liabilities in the Balance sheet necessary?

No, because banks can even make money as a result of such mismatches sometimes. Alan Greenspan, ex-Chairman of US Federal Reserve has once observed "risk taking is necessary condition for wealth creation". However, it is a risky proposition to keep large mismatches as it can lead to massive losses in a volatile market. Therefore, in practice, the idea is to limit the mismatches rather than aim at zero mismatches.

Evolution of ALM in Indian Banking System:

In view of the regulated environment in India in 1970s to early 1990s, there was no interest rate risk as the interest rate were regulated and prescribed by RBI. Spreads between deposits and lending rates were very wide. At that time banks Balance Sheets were not being managed by banks themselves as they were being managed through prescriptions of the regulatory authority and the government. With the deregulation of interest rates, banks were given a large amount of freedom to manage their Balance sheets. Thus, it became necessary to introduce ALM guidelines so that banks can be prevented from big losses on account of wide ALM mismatches.

Reserve Bank of India issued its first ALM Guidelines in February 1999, which was made effective from 1st April 1999. These guidelines covered, inter alia, interest rate risk and liquidity risk measurement/ reporting framework and prudential limits. Gap statements were required to be prepared by scheduling all assets and liabilities according to the stated or anticipated re-pricing date or maturity date. The Assets and Liabilities at this stage were required to be divided into 8 maturity buckets (1-14 days; 15-28 days; 29-90 days; 91-180 days; 181-365 days, 1-3 years and 3-5 years and above 5 years), based on the remaining period to their maturity (also called residual maturity).. All the liability figures were to be considered as outflows while the asset figures were considered as inflows.

As a measure of liquidity management, banks were required to monitor their cumulative mismatches across all time buckets in their statement of structural liquidity by establishing internal prudential limits with the approval of their boards/ management committees. As per the guidelines, in the normal course, the mismatches (negative gap) in the time buckets of 1-14 days and 15-28 days were not to exceed 20 per cent of the cash outflows in the respective time buckets

Later on RBI made it mandatory for banks to form ALCO (Asset Liability Committee) as a Committee of the Board of Directors to track, monitor and report ALM.

It was in September, 2007, in response to the international practices and to meet the need for a sharper assessment of the efficacy of liquidity management and with a view to providing a stimulus for development of the term-money market, RBI fine tuned these guidelines and it was provided that the banks may adopt a more granular approach to measurement of liquidity risk by splitting the first time bucket (1-14 days at present) in the Statement of Structural Liquidity

into three time buckets viz., 1 day (called next day) , 2-7 days and 8-14 days. Thus, banks were asked to put their maturing asset and liabilities in 10 time buckets.

Thus as per October 2007 RBI guidelines, banks were advised that the net cumulative negative mismatches during the next day, 2-7 days, 8-14 days and 15-28 days should not exceed 5%, 10%, 15% and 20% of the cumulative outflows, respectively, in order to recognize the cumulative impact on liquidity. Banks were also advised to undertake dynamic liquidity management and prepare the statement of structural liquidity on a daily basis. In the absence of a fully networked environment, banks were allowed to compile the statement on best available data coverage initially but were advised to make conscious efforts to attain 100 per cent data coverage in a timely manner. Similarly, the statement of structural liquidity was to be reported to the Reserve Bank, once a month, as on the third Wednesday of every month. The frequency of supervisory reporting of the structural liquidity position was increased to fortnightly, with effect from April 1, 2008. Banks are now required to submit the statement of structural liquidity as on the first and third Wednesday of every month to the Reserve Bank.

Board's of the Banks were entrusted with the overall responsibility for the management of risks and required to decide the risk management policy and set limits for liquidity, interest rate, foreign exchange and equity price risks.

Asset-Liability Committee (ALCO), the top most committee to oversee the implementation of ALM system is to be headed by CMD /ED. ALCO considers product pricing for both deposits and advances, the desired maturity profile of the incremental assets and liabilities in addition to monitoring the risk levels of the bank. It will have to articulate current interest rates view of the bank and base its decisions for future business strategy on this view.

Progress in Adoption of Techniques of ALM by Indian Banks : ALM process involve in identification , measurement and management of risk Parameter. In its original guidelines RBI asked the banks to use traditional techniques like Gap analysis for monitoring interest rates and liquidity risk. At that RBI desired that Indian Banks slowly move towards sophisticated techniques like duration , simulation and Value at risk in future. Now with the passage of time, more and more banks are moving towards these advanced techniques.

Asset- Liability Management Techniques :

ALM is bank specific control mechanism, but it is possible that several banks may employ similar ALM techniques or each bank may use unique system.

Gap Analysis : Gap Analysis is a technique of Asset – Liability management . It is used to assess interest rate risk or liquidity risk. It measures at a given point of time the gaps between Rate Sensitive Liabilities (RSL) and Rate Sensitive Assets (RSA) (including off balance sheet position) by grouping them into time buckets according to residual maturity or next re-pricing period , whichever is earlier. An asset or liability is treated as rate sensitive if;

- i) Within time bucket under consideration is a cash flow.
- ii.) The interest rate resets/reprices contractually during time buckets
- iii.) Administered rates are changed and
- iv.) It is contractually pre-payable or withdrawal allowed before contracted maturities.

Thus ;

$$\text{GAP} = \text{RSA} - \text{RSL}$$

$$\text{GAP Ratio} = \text{RSAs} / \text{RSL}$$

- Mismatches can be positive or negative
 - Positive Mismatch: $M.A. > M.L.$ and vice-versa for Negative Mismatch
 - In case of +ve mismatch, excess liquidity can be deployed in money market instruments, creating new assets & investment swaps etc.

- For –ve mismatch, it can be financed from market borrowings (call/Term), Bills rediscounting, repos & deployment of foreign currency converted into rupee.

Gap analysis was widely used by financial institutions during late 1990s and early years of present century in India. The table below gives you idea who does a positive or negative gap would impact on NII in case there is upward or downward movement of interest rates:

Gap	Interest rate Change	Impact on NII
Positive	Increases	Positive
Positive	Decreases	Negative
Negative	Increases	Negative
Negative	Decreases	Positive

Duration Gap Analysis :

This is an alternative method for measuring interest-rate risk. This technique examines the sensitivity of the market value of the financial institution's net worth to changes in interest rates. Duration analysis is based on Macaulay's concept of duration, which measures the average lifetime of a security's stream of payments.

We know that Duration is an important measure of the interest rate sensitivity of assets and liabilities as it takes into account the time of arrival of cash flows and the maturity of assets and liabilities. It is the weighted average time to maturity of all the present values of cash flows. Duration basically refers to the average life of the asset or the liability. $DP/p = D (dR / 1+R)$ The above equation describes the percentage fall in price of the bond for a given increase in the required interest rates or yields.

The larger the value of the duration, the more sensitive is the price of that asset or liability to changes in interest rates. Thus, as per this theory, the bank will be immunized from interest rate risk if the duration gap between assets and the

liabilities is zero. The duration model has one important benefit. It uses the market value of assets and liabilities.

Duration analysis summarises with a single number exposure to parallel shifts in the term structure of interest rates.

It can be noticed that both gap and duration approaches worked well if assets and liabilities comprised fixed cash flows. However options such as those embedded in mortgages or callable debt posed problems that gap analysis could not address. Duration analysis could address these in theory, but implementing sufficiently sophisticated duration measures was problematic.

Scenario Analysis :

Under the scenario analysis of ALM several interest rate scenarios are created during next 5 to 10 years . Such scenarios might specify declining interest rates , rising interests rates, a gradual decrease in rates followed by sudden rise etc. Different scenarios may specify the behavior of the entire yield curve, so there could be scenarios with flattening yield curve, inverted yield curves etc. Ten to twenty scenarios might be specified to have a holistic view of the scenario analysis. Next assumptions would be made about the performances of assets and liabilities under each scenario. Assumptions might include prepayment rates on mortgages and surrender rates on insurance products. Assumptions may also be made about the firms performance . Based upon these assumptions the performance of the firm's balance sheet could be projected under each scenario. If projected performance was poor under specific scenario the ALCO might adjust assets or liabilities to address the indicated exposure . A short coming of scenario analysis is the fact that it is highly dependent on the choice of scenario. It also requires that many assumptions be made about how specific assets or liabilities will perform under specific scenario.

Value at Risk

VaR or Value at Risk refers to the maximum expected loss that a bank can suffer over a target horizon, given a certain confidence interval. It enables the calculation of market risk of a portfolio for which no historical data exists. It enables one to calculate the net worth of the organization at any particular point of time so that it is possible to focus on long term risk implications of decisions that have already been taken or that are going to be taken. It is used extensively for measuring the market risk of a portfolio of assets and/or liabilities.

Conclusion:

We can conclude to say that ALM is an important tool for monitoring, measuring and managing the interest rate risk, liquidity risk and foreign currency risk of a bank. With the deregulation of interest regime in India , the banking industry has been exposed to interest rate risk / market risk . Hence to manage such risk, ALM needs to be used so that the management is able to assess the risks and cover some of these by taking appropriate decisions.

Liquidity Management in Turbulent Times

by Jim Negus, Partner, US Bank Finance, Treasury and Capital Markets Practice, KPMG

Given today's turbulent global economy, external directors increasingly ask executives to demonstrate the company's ability to remain viable and liquid. The renewed 'call to action' is largely driven by a strong deterioration in global markets fuelling significant funding cost increases and unprecedented investment and capital losses.

While leading companies have successfully managed liquidity in prosperous times, the current market compels management and directors to take a fresh look at liquidity risk management practices – in particular continued access to credit markets, key cash flow assumptions, what-if analysis, and contingency planning.

Liquidity management defined

Liquidity management is a concept broadly describing a company's ability to meet financial obligations through cash flow¹, funding activities, and capital management. Liquidity management can be challenging as it is impacted by revenue and cost generating activities, capital and dividend plans, and tax strategies. Additionally, it is closely linked to broader market, credit and general business risks.

Board focus

Given the sheer volume and magnitude of organisational failures experienced in 2008 and 2009, liquidity management has become a frequent agenda item at leading board and Audit Committee meetings. While each company is unique, board requests have typically focused on renewed liquidity transparency and governance. In addition the amendments to the Companies Act require the board to consider these aspects.

Liquidity transparency

Despite a significant increase in corporate risk management capabilities over the last decade, directors have had less exposure to liquidity risks when compared to other prominent exposure categories (e.g., market, credit, compliance, regulatory, etc.). While this was partly due to a history of economic prosperity, directors now expect

more frequent liquidity updates and greater visibility into key cash and liquidity measures.

For example, many boards now require management to provide quarterly or more frequent liquidity updates, often with rolling base case cash forecasts and stress scenarios covering depressed market and operational conditions and credit facilities. Leading companies typically establish formal liquidity thresholds, contingency plans and internal accountabilities – all of which assist management and directors to gain visibility and evaluate liquidity risk. Each topic is described in greater detail below:

- **Base case cash flow forecast using standardised assumptions:** The base case forecast represents significant or ‘best estimate’ cash in-and out-flows. The base case forecast is most effective when driven by common enterprise-wide assumptions, to the extent feasible, and key assumption support. For instance, organisations may provide revenue and expense forecast assumption guidance including geographic unemployment estimates, short- and long-term interest rates, foreign currency rates, counterparty default rates, product margin, and payment terms, to name a few. While this process may be challenging for international and highly decentralised organisations, there is anecdotal evidence suggesting value achieved through improved cash flow aggregation and awareness.
- **Scenario and stress tests:** Directors increasingly request management to shock and report base case scenarios under various ‘downside’ conditions. These ‘stress test’² results, as they are typically referred to, reflect cash flows and credit facility availability under distressed revenue and expense environments. Stress tests generally involve a ‘worst case’² and other management or regulatory-defined scenarios. Stress tests³ allow management and directors to assess the degree to which core forecasts and assumptions may be negatively affected by prescribed events, the impact to an organisation’s ability to satisfy certain obligations, and the degree to which an organisation is exposed.
- **12-Month rolling base case and stress forecasts:** In many organisations liquidity risk has been viewed on a short-term basis, largely supporting working capital and short- to medium-term financing needs. This trend has shifted as boards have extended liquidity and cash forecast requirements to address at least a one-year time horizon, generally reported on a rolling monthly basis. The benefits achieved through a longer liquidity window include greater transparency into significant cash outflows (e.g., debt maturities, M&A, etc.) and improved lead time to employ traditional or creative measures to satisfy such obligations.
- **Liquidity threshold:** While base case and stress scenarios increase board awareness, results may lack context required to drive desired action. As a solution, organisations have turned to liquidity thresholds and supporting contingency plans. The liquidity threshold typically represents a formal tolerance level (or band) ‘triggering’ management oversight or remediation. Example liquidity thresholds include maximum credit facilities, downgrade risk⁴ (e.g., debt/EBITDA), capital structure ratios (e.g., debt to equity), short- to long- term debt financing ratios (e.g., <25% short-term financing), and various debt covenant thresholds relevant to cash, credit or capital markets (e.g., interest coverage).
- **Liquidity contingency plans:** Once the liquidity thresholds are established, management assigns permitted or required actions (herein referred to as the liquidity contingency plan) to each tolerance level or band. The liquidity contingency plan typically guides management through various liquidity scenarios ranging from

minimum cash and liquidity balances, permitted funding sources and mix, equity repurchase and capital expenditure permissions to available working capital and operating cost reduction strategies. In addition to serving as a management guide, the contingency plan can assist directors to quickly ascertain critical liquidity risk thresholds and desired outcomes under normal and extraordinary times.

Next Page 1 2

[Latest Indian Business News](#) [Financial World - Latest Articles](#) [Latest World News](#)

Interest Rate Risk (IRR) Management

What is Interest Rate Risk :

Interest rate risk is the risk where changes in market interest rates might adversely affect a bank's financial condition. The management of Interest Rate Risk should be one of the critical components of market risk management in banks. The regulatory restrictions in the past had greatly reduced many of the risks in the banking system. Deregulation of interest rates has, however, exposed them to the adverse impacts of interest rate risk. T

What is the Impact of IRR:

The immediate impact of changes in interest rates is on the Net Interest Income (NII). A long term impact of changing interest rates is on the bank's networth since the economic value of a bank's assets, liabilities and off-balance sheet positions get affected due to variation in market interest rates.

The Net Interest Income (NII) or Net Interest Margin (NIM) of banks is dependent on the movements of interest rates. Any mismatches in the cash flows (fixed assets or liabilities) or repricing dates (floating assets or liabilities), expose bank's NII or NIM to variations. The earning of assets and the cost of liabilities are closely related to market interest rate volatility.

The interest rate risk when viewed from these two perspectives is known as ‘earnings perspective’ and ‘economic value’ perspective, respectively.

Management of interest rate risk aims at capturing the risks arising from the maturity and repricing mismatches and is measured both from the earnings and economic value perspective.

(a) Earnings perspective involves analysing the impact of changes in interest rates on accrual or reported earnings in the near term. This is measured by measuring the changes in the Net Interest Income (NII) or Net Interest Margin (NIM) i.e. the difference between the total interest income and the total interest expense.

(b) Economic Value perspective involves analysing the changes of impact of interest on the expected cash flows on assets minus the expected cash flows on liabilities plus the net cash flows on off-balance sheet items. It focuses on the risk to networth arising from all repricing mismatches and other interest rate sensitive positions. The economic value perspective identifies risk arising from long-term interest rate gaps.

BCBS Principles for Interest Rate Risk Management

Board and senior management oversight of interest rate risk

Principle 1: In order to carry out its responsibilities, the board of directors in a bank should approve strategies and policies with respect to interest rate risk management and ensure that senior management takes the steps necessary to monitor and control these risks. The board of directors should be informed regularly of the interest rate risk exposure of the bank in order to assess the monitoring and controlling of such risk.

Principle 2: Senior management must ensure that the structure of the bank's business and the level of interest rate risk it assumes are effectively managed, that appropriate policies and procedures are established to control and limit these risks, and that resources are available for evaluating and controlling interest rate risk.

Principle 3: Banks should clearly define the individuals and/or committees responsible for managing interest rate risk and should ensure that there is adequate separation of duties in key elements of the risk management process to avoid potential conflicts of interest. Banks should have risk measurement, monitoring and control functions with clearly defined duties that are sufficiently independent from position-taking functions of the bank and which report risk exposures directly to senior management and the board of directors. Larger or more complex banks should have a designated independent unit responsible for the design and administration of the bank's interest rate risk measurement, monitoring and control functions.

Adequate risk management policies and procedures

Principle 4: It is essential that banks' interest rate risk policies and procedures are clearly defined and consistent with the nature and complexity of their activities. These policies should be applied on a consolidated basis and, as appropriate, at the level of individual affiliates, especially when recognising legal distinctions and possible obstacles to cash movements among affiliates.

Principle 5: It is important that banks identify the risks inherent in new products and activities and ensure these are subject to adequate procedures and controls before being introduced or undertaken. Major hedging or risk management initiatives should be approved in advance by the board or its appropriate delegated committee.

Risk measurement, monitoring and control functions

Principle 6: It is essential that banks have interest rate risk measurement systems that capture all material sources of interest rate risk and that assess the effect of interest rate changes in ways that are consistent with the scope of their activities. The assumptions

underlying the system should be clearly understood by risk managers and bank management.

Principle 7: Banks must establish and enforce operating limits and other practices that maintain exposures within levels consistent with their internal policies.

Principle 8: Banks should measure their vulnerability to loss under stressful market conditions - including the breakdown of key assumptions - and consider those results when establishing and reviewing their policies and limits for interest rate risk.

Principle 9: Banks must have adequate information systems for measuring, monitoring, controlling and reporting interest rate exposures. Reports must be provided on a timely basis to the bank's board of directors, senior management and, where appropriate, individual business line managers.

Internal controls

Principle 10: Banks must have an adequate system of internal controls over their interest rate risk management process. A fundamental component of the internal control system involves regular independent reviews and evaluations of the effectiveness of the system and, where necessary, ensuring that appropriate revisions or enhancements to internal controls are made. The results of such reviews should be available to the relevant supervisory authorities.

Information for supervisory authorities

Principle 11: Supervisory authorities should obtain from banks sufficient and timely information with which to evaluate their level of interest rate risk. This information should take appropriate account of the range of maturities and currencies in each bank's portfolio,

including off-balance sheet items, as well as other relevant factors, such as the distinction between trading and non-trading activities.

Capital adequacy

Principle 12: Banks must hold capital commensurate with the level of interest rate risk they undertake.

Disclosure of interest rate risk

Principle 13: Banks should release to the public information on the level of interest rate risk and their policies for its management.

Sources, effects and measurement of interest rate risk

Interest rate risk is the exposure of a bank's financial condition to adverse movements in interest rates. Accepting this risk is a normal part of banking and can be an important source of profitability and shareholder value. However, excessive interest rate risk can pose a significant threat to a bank's earnings and capital base. Changes in interest rates affect a bank's earnings by changing its net interest income and the level of other interest-sensitive income and operating expenses. Changes in interest rates also affect the underlying value of the bank's assets, liabilities and off-balance sheet instruments because the present value of future cash flows (and in some cases, the cash flows themselves) change when interest rates change.

A. Sources of Interest Rate Risk

Repricing risk: As financial intermediaries, banks encounter interest rate risk in several ways. The primary and most often discussed form of interest rate risk arises from timing differences in the maturity (for fixed rate) and repricing (for floating rate) of bank assets, liabilities and off-balance-sheet (OBS) positions. While such repricing mismatches are fundamental to the business of banking, they can expose a bank's income and underlying economic value to unanticipated fluctuations as interest rates vary. For instance, a bank that funded a long-term fixed rate loan with a short-

term deposit could face a decline in both the future income arising from the position and its underlying value if interest rates increase. These declines arise because the cash flows on the loan are fixed over its lifetime, while the interest paid on the funding is variable, and increases after the short-term deposit matures.

Yield curve risk: Repricing mismatches can also expose a bank to changes in the slope and shape of the yield curve. Yield curve risk arises when unanticipated shifts of the yield curve have adverse effects on a bank's income or underlying economic value. For instance, the underlying economic value of a long position in 10-year government bonds hedged by a short position in 5-year government notes could decline sharply if the yield curve steepens, even if the position is hedged against parallel movements in the yield curve.

Basis risk: Another important source of interest rate risk (commonly referred to as basis risk) arises from imperfect correlation in the adjustment of the rates earned and paid on different instruments with otherwise similar repricing characteristics. When interest rates change, these differences can give rise to unexpected changes in the cash flows and earnings spread between assets, liabilities and OBS instruments of similar maturities or repricing frequencies.

Optionality: An additional and increasingly important source of interest rate risk arises from the options embedded in many bank assets, liabilities and OBS portfolios. Formally, an option provides the holder the right, but not the obligation, to buy, sell, or in some manner alter the cash flow of an instrument or financial contract. Options may be stand alone instruments such as exchange-traded options and over-the-counter (OTC) contracts, or they may be embedded within otherwise standard instruments. While banks use exchange-traded and OTC-options in both trading and non-trading accounts, instruments with embedded options are generally most important in non-trading activities. They include various types of bonds and notes with call or put provisions, loans which give borrowers the right to prepay balances, and various types of non-maturity deposit instruments which give depositors the right to withdraw funds at any time, often without any penalties. If not adequately managed, the asymmetrical payoff characteristics of instruments with optionality features can pose significant risk particularly to those who sell them, since the options held, both explicit and embedded, are generally exercised to the advantage of the holder and the disadvantage of the seller. Moreover, an increasing array of options can involve significant leverage which can magnify the influences (both negative and positive) of option positions on the financial condition of the firm.

B. Effects of Interest Rate Risk

As the discussion above suggests, changes in interest rates can have adverse effects both on a bank's earnings and its economic value. This has given rise to two separate, but complementary, perspectives for assessing a bank's interest rate risk exposure.

Earnings perspective: In the earnings perspective, the focus of analysis is the impact of changes in interest rates on accrual or reported earnings. This is the traditional approach to interest rate risk assessment taken by many banks. Variation in earnings is an important focal point for interest rate risk analysis because reduced earnings or outright losses can threaten the financial stability of an institution by undermining its capital adequacy and by reducing market confidence. In this regard, the component of earnings that has traditionally received the most attention is net interest income (i.e. the difference between total interest income and total interest expense). This focus reflects both the importance of net interest income in banks' overall earnings and its direct and easily understood link to changes in interest rates. However, as banks have expanded increasingly into activities that generate fee-based and other non-interest income, a broader focus on overall net income - incorporating both interest and non-interest income and expenses - has become more common. The non-interest income arising from many activities, such as loan servicing and various asset securitisation programs, can be highly sensitive to market interest rates. For example, some banks provide the servicing and loan administration function for mortgage loan pools in return for a fee based on the volume of assets it administers. When interest rates fall, the servicing bank may experience a decline in its fee income as the underlying mortgages prepay. In addition, even traditional sources of non-interest income such as transaction processing fees are becoming more interest rate sensitive. This increased sensitivity has led both bank management and supervisors to take a broader view of the potential effects of changes in market interest rates on bank earnings and to factor these broader effects into their estimated earnings under different interest rate environments.

Economic value perspective: Variation in market interest rates can also affect the economic value of a bank's assets, liabilities and OBS positions. Thus, the sensitivity of a bank's economic value to fluctuations in interest rates is a particularly important consideration of shareholders, management and supervisors alike. The economic value of an instrument represents an assessment of the present value of its expected net cash flows, discounted to reflect market rates. By extension, the economic value of a bank can be viewed as the present value of bank's expected net cash flows, defined as the expected cash flows on assets minus the expected cash flows on liabilities plus the expected net cash flows on OBS positions. In this sense, the economic value perspective reflects one view of the sensitivity of the net worth of the bank to fluctuations in interest rates. Since the economic value perspective considers the potential impact of interest rate changes on the present value of all future cash flows, it provides a more comprehensive view of the potential long-term effects of changes in interest rates than is offered by the earnings perspective. This comprehensive view is important since changes in near-term earnings – the typical focus of the earnings perspective - may not provide an accurate indication of the impact of interest rate movements on the bank's overall positions.

Embedded losses: The earnings and economic value perspectives discussed thus far focus on how future changes in interest rates may affect a bank's financial performance. When evaluating the level of interest rate risk it is willing and able to assume, a bank should also consider the impact that past interest rates may have on future performance. In particular, instruments that are not marked to market may already contain embedded gains or losses due to past rate movements. These gains or losses may be reflected over time in the bank's earnings. For example, a long

term fixed rate loan entered into when interest rates were low and refunded more recently with liabilities bearing a higher rate of interest will, over its remaining life, represent a drain on the bank's resources.

C. Measuring Interest Rate Risk

The techniques available for measuring interest rate risk range from calculations that rely on simple maturity and repricing tables, to static simulations based on current on- and off-balance sheet positions, to highly sophisticated dynamic modelling techniques that incorporate assumptions about the behaviour of the bank and its customers in response to changes in the interest rate environment. Some of these general approaches can be used to measure interest rate risk exposure from both an earnings and an economic value perspective, while others are more typically associated with only one of these two perspectives. In addition, the methods vary in their ability to capture the different forms of interest rate exposure: the simplest methods are intended primarily to capture the risks arising from maturity and repricing mismatches, while the more sophisticated methods can more easily capture the full range of risk exposures.

Gap analysis: Simple maturity/repricing schedules can be used to generate simple indicators of the interest rate risk sensitivity of both earnings and economic value to changing interest rates. When this approach is used to assess the interest rate risk of current earnings, it is typically referred to as gap analysis. Gap analysis was one of the first methods developed to measure a bank's interest rate risk exposure, and continues to be widely used by banks. To evaluate earnings exposure, interest rate sensitive liabilities in each time band are subtracted from the corresponding interest rate sensitive assets to produce a repricing "gap" for that time band. This gap can be multiplied by an assumed change in interest rates to yield an approximation of the change in net interest income that would result from such an interest rate movement. The size of the interest rate movement used in the analysis can be based on a variety of factors, including historical experience, simulation of potential future interest rate movements, and the judgement of bank management. A negative, or liability-sensitive, gap occurs when liabilities exceed assets (including off-balance sheet positions) in a given time band. This means that an increase in market interest rates could cause a decline in net interest income. Conversely, a positive, or asset-sensitive, gap implies that the bank's net interest income could decline as a result of a decrease in the level of interest rates.

Limitations of Gap Analysis: Although gap analysis is a very commonly used approach to assessing interest rate risk exposure, it has a number of shortcomings. First, gap analysis does not take

account of variation in the characteristics of different positions within a time band. In particular, all positions within a given time band are assumed to mature or reprice simultaneously, a simplification that is likely to have greater impact on the precision of the estimates as the degree of aggregation within a time band increases. Moreover, gap analysis ignores differences in spreads between interest rates that could arise as the level of market interest rates changes (basis risk). In addition, it does not take into account any changes in the timing of payments that might occur as a result of changes in the interest rate environment. Thus, it fails to account for differences in the sensitivity of income that may arise from option-related positions. For these reasons, gap analysis provides only a rough approximation to the actual change in net interest income which would result from the chosen change in the pattern of interest rates. Finally, most gap analyses fail to capture variability in non-interest revenue and expenses, a potentially important source of risk to current income.

Duration

A maturity/repricing schedule can also be used to evaluate the effects of changing interest rates on a bank's economic value by applying sensitivity weights to each time band. Typically, such weights are based on estimates of the duration of the assets and liabilities that fall into each time band. **Duration is a measure of the percent change in the economic value of a position that will occur given a small change in the level of interest rates.** Duration may also be defined as the weighted average of the time until expected cash flows from a security will be received, relative to the current price of the security. The weights are the present values of each cash flow divided by the current price. In its simplest form, duration measures changes in economic value resulting from a percentage change of interest rates under the simplifying assumptions that changes in value are proportional to changes in the level of interest rates and that the timing of payments is fixed.

Modified duration is standard duration divided by $1 + r$, where r is the level of market interest rates - is an elasticity. As such, it reflects the percentage change in the economic value of the instrument for a given percentage change in $1 + r$. As with simple duration, it assumes a linear relationship between percentage changes in value and percentage changes in interest rates.

In other words, Modified Duration = Macaulay's Duration/(I+r), where

Macaulay's Duration= $\sum CF_t(t)/(I+r) / \sum CF_t/(1+r)^t$

CF_t=Rupee value of cash flow at time t

T= Number of periods of time until the cash flow payment

r=Periodic yield to maturity of the security generating cash flow and

k=the number of cash flows

Duration reflects the timing and size of cash flows that occur before the instrument's contractual maturity. Generally, the longer the maturity or next repricing date of the instrument and the smaller the payments that occur before maturity (e.g. coupon payments), the higher the duration (in absolute value). Higher duration implies that a given change in the level of interest rates will have a larger impact on economic value.

Duration-based weights can be used in combination with a maturity/ repricing schedule to provide a rough approximation of the change in a bank's economic value that would occur given a particular change in the level of market interest rates. Specifically, an "average" duration is assumed for the positions that fall into each time band. The average durations are then multiplied by an assumed change in interest rates to construct a weight for each time band. In some cases, different weights are used for different positions that fall within a time band, reflecting broad differences in the coupon rates and maturities (for instance, one weight for assets, and another for liabilities). In addition, different interest rate changes are sometimes used for different time bands, generally to reflect differences in the volatility of interest rates along the yield curve. The weighted gaps are aggregated across time bands to produce an estimate of the change in economic value of the bank that would result from the assumed changes in interest rates.

Alternatively, a bank could estimate the effect of changing market rates by calculating the precise duration of each asset, liability and off-balance sheet position and then deriving the net position for the bank based on these more accurate measures, rather than by applying an estimated average duration weight to all positions in a given time band. This would eliminate potential errors occurring when aggregating positions/cash flows. As another variation, risk weights could also be designed for each time band on the basis of actual percent changes in market values of hypothetical instruments that would result from a specific scenario of changing market rates. That approach - which is sometimes referred to as effective duration - would better capture the non-linearity of price movements arising from significant changes in market interest rates and, thereby, would avoid an important limitation of duration.

Estimates derived from a standard duration approach may provide an acceptable approximation of a bank's exposure to changes in economic value for relatively non-complex banks. Such estimates, however, generally focus on just one form of interest rate risk exposure - repricing risk. As a result, they may not reflect interest rate risk arising – for instance - from changes in the relationship among interest rates within a time band (basis risk). In addition, because such approaches typically use an average duration for each time band, the estimates will not reflect differences in the actual sensitivity of positions that can arise from differences in coupon rates and the timing of payments. Finally, the simplifying assumptions that underlie the calculation of standard duration means that the risk of options may not be well-captured

Credit risk is a type of risk which is borne by the lender due to failure in repayment of loan from the borrower. In simple words it can be termed as a loss for the lender.

Operational risk is a type of risk which is borne by an organization due to failure in normal operations of the organizations. This basically means loss resulting from operational failure

Treasury Functions and Operations

Everyone can recognize many of the businesses that operate around them providing goods and services for their needs. But most people are not familiar with what goes on behind the scenes in order for those businesses to function.

When discussing the treasury operations of a company, we are really talking about the ability of a company to pay its bills and to have the funds to support its operations and make the investments in assets necessary to grow the business. The **treasurer** is the person that has the responsibility to make sure that there is cash available to do the things that the company has planned.

The treasury function in most small businesses have to be performed by the owner themselves, while in larger companies, it falls to the person hired to be the controller or chief financial officer. Large billion dollar corporations can afford to have a treasury department to perform the various operations and functions.

Cash Management

As companies sell products and services, they generate revenue. This revenue is turned into cash. One of the primary roles of the treasurer is to have ready sources available where they can invest this cash short term in order to generate some interest income.

Businesses are not paid interest for cash that just sits in their checking accounts. Say Mike is a treasurer. If he can take this money and generate interest income until that cash is needed to pay bills, he can often add several percentage points of profit to the bottom line of the business.

For instance, if Mike regularly has a \$1,000,000 of cash invested in short-term investments averaging 5% interest rather than sitting in the checking account, he would generate an additional \$50,000 of income over a year for the company.

Fluctuations in Cash Flow

One of the problems all companies face is that there are fluctuations in sales. Sometimes these fluctuations are due to economic cycles or changes in demand for their products, or because the business is seasonal like in construction or a flower nursery.

A company can only stay in business as long as they have cash to pay their bills. If they can't pay their bills, they have to go into bankruptcy to either refinance or rework their business or to liquidate.

The treasurer is the one tasked with providing the cash for the business to keep going through the business fluctuations. Mary, the treasurer at XYZ Construction, worries about the cash that will be needed in the winter to keep paying bills when the amount of work declines.

She has gone to her bank and negotiated lines of credit for \$2 million that she can draw down on when money is needed in the winter. To get those lines of credit, XYZ Construction has pledged its accounts receivable and inventories as collateral to ensure they repay the monies borrowed.

Last winter, Mary drew down \$1,500,000 to pay bills during the winter, and based on projections for the next year, she knows that she can repay that balance when the company gets busy with new contracts and customers during the summer. Lines of credit can either be secured like Mary's or it can be unsecured with no collateral required depending on the credit worthiness of the company.

Supporting Growth Opportunities

To meet demand, companies often have to grow faster than they can generate cash to support the sales increases. In those situations, companies will have to borrow from financial institutions.

[FINANCIAL RATIOS](#)

What Does a High Capital Adequacy Ratio Indicate?

- FACEBOOK
- TWITTER
- LINKEDIN

By [BRIAN BEERS](#)
Updated Jul 30, 2019

The [capital adequacy ratio](#), also known as capital to risk-weighted assets ratio, measures a bank's financial strength by using its capital and assets. It is used to protect depositors and promote the stability and efficiency of financial systems around the world.

Generally, a bank with a high capital adequacy ratio is considered safe and likely to meet its financial obligations.

How the Capital Adequacy Ratio Is Calculated

The [capital adequacy ratio](#) is calculated by dividing a bank's capital by its risk-weighted assets. The capital used to calculate the capital adequacy ratio is divided into two tiers.

Tier-One Capital

[Tier-one capital](#), or core capital, is comprised of equity capital, ordinary share capital, intangible assets, and audited revenue reserves. Tier-one capital is used to absorb losses and does not require a bank to cease operations.

Tier-Two Capital

Tier two capital comprises unaudited retained earnings, unaudited reserves, and general loss reserves. This capital absorbs losses in the event of a company winding up or liquidating.

The two capital tiers are added together and divided by risk-weighted assets to calculate a bank's capital adequacy ratio. Risk-weighted assets are calculated by looking at a bank's loans, evaluating the risk, and then assigning a weight.

The Minimum Ratio of Capital to Risk-Weighted Assets

Currently, the minimum ratio of capital to risk-weighted assets is eight percent under [Basel II](#) and 10.5 percent under Basel III. High capital adequacy ratios are above the minimum requirements under Basel II and Basel III.

[Minimum capital adequacy ratios](#) are critical in ensuring that banks have enough cushion to absorb a reasonable amount of losses before they become insolvent and consequently lose depositors' funds.

For example, suppose bank ABC has \$10 million in tier-one capital and \$5 million in tier-two capital. It has loans that have been weighted and calculated as \$50 million. The capital adequacy ratio of bank ABC is 30 percent $((\$10 \text{ million} + \$5 \text{ million}) / \$50 \text{ million})$. Therefore, this bank has a high capital adequacy ratio and is considered to be safer. As a result, Bank ABC is less likely to become insolvent if unexpected losses occur

Management of Non-Performing Assets of a Bank | Banking

Article shared by : **Moumita N** <="" div="" style="margin: 0px; padding: 0px; border: 0px; outline: 0px; font-size: 16px; vertical-align: bottom; background: transparent; max-width: 100%;">

ADVERTISEMENTS:

Banks in their primitive form act as an intermediary by collecting money from those who have excess money and lending to those who need it for more productive purposes. However in earlier times, the lending was mostly security-oriented and the bad loans were unheard of!

The Indian banking system till early 90s was insulated from the global world and was dominated by government controls, regulations, political interferences and restricted entry to the outside world. Added to this, imperfect standards and opaque balance sheets were the tools to window-dress the deficiencies and deterioration of the banking system from the public. The low profitability, growing level of non-performing assets and relatively inadequate capital base were the causes for concern.

But the turning point came in 1991 when Prime Minister Narasimha Rao and Finance Minister Manmohan Singh announced a whole package of reforms in the name of LPG (liberalisation, privatisation and globalisation).

ADVERTISEMENTS:

Identifying the causes for deterioration in the financial health of banking system over time and a need to have a healthy, vibrant and a stable banking system to give life support to the economy of the country, the Reserve Bank of India, on the recommendation of Narasimha Committee introduced the prudential norms in 1992-93. In the background of these reforms and changes, though the problem of NPAs was belatedly recognised, but these NPAs have not arisen overnight. Rather, prior to this first phase of financial sector reforms, these NPAs were hidden under the veil of secrecy and window-dressing in the balance sheets of banks.

Banks used to follow the practice of 'ever greening' the bad loans by making fresh advances to such borrowers. However, with the opening up of the economy, greater transparency and trends in globalization and privatization, NPAs surfaced with a big bang.

This research paper attempts to throw light on the current changes related to meaning and magnitude of non-performing assets and suggests an alternative solution for the management of non-performing assets.

Definition of Non-Performing Assets:

ADVERTISEMENTS:

With effect from 31-03-2004, a non-performing asset means a loan or advance where:

- (i) Interest and/or instalment of principal remains overdue for a period of more than 90 days in respect of term loan;
- (ii) The account remains 'out of order' for a period of more than 90 days in respect of an overdraft/cash credit;
- (iii) Interest and/or instalment of principal remains overdue for two harvest seasons but for a period not exceeding two half years in case of an advance granted for agriculture purposes.

ADVERTISEMENTS:

- (iv) Any amount to be received remains overdue for a period of more than 90 days in respect of other accounts.

Prudential Norms for Managing Non-Performing Assets:

1. Asset Classification:

The advances are classified into four broad groups:

- i. Standard Assets – Such assets don't disclose any problem and don't carry more than normal risk attached to the business. Such an asset is not a non-performing asset.

ADVERTISEMENTS:

- ii. Sub Standard Assets – It is classified as non-performing asset for a period not exceeding 12 months. Such an asset will have well defined credit weaknesses that jeopardize liquidation of the debt and are characterized by distinct possibility that the bank will sustain some loss.
- iii. Doubtful Assets – Assets, which have remained NPAs for a period exceeding 12 months. It means any NPA would migrate from sub-standard to doubtful category after 12 months.
- iv. Loss Assets – A loss asset is one where loss has been identified by the bank or internal/external auditors or RBI inspectors but the amount has not been written off, wholly or partially Any NPA would get classified as loss asset if it were irrecoverable or only marginally collectible and cannot be classified as bankable asset.

2. Income Recognition:

ADVERTISEMENTS:

If an asset is performing, income can be recognized on accrual basis but if the asset is non-performing, income should not be recognized on accrual basis but should be booked only when it is actually received (cash basis).

3. Provisioning Requirements:

	Asset	Provision
I	Standard assets	0.25%
II	Sub-standard assets	10%
III	Doubtful assets	
	Age-wise	
	D1 doubtful up to 1 year	20%
	D2 doubtful for 1-3 years	30%
	D3 doubtful for >3 years	50%
IV	Loss assets	100%

Impact of Non-Performing Assets on Banks:

The Non-performing Assets represent idle physical assets in the economy. NPA affects the profitability, liquidity and the competitive functioning of the banking industry. NPAs impose a double burden – first while providing for them and the second by putting a constraint on the bank’s ability to lend further.

ADVERTISEMENTS:

It is very difficult to contain and manage any problem until and unless we know the causes behind the emergence and growth of that problem.

The important causes behind the loan accounts turning non-performing are:

- i. Political influences and compulsions while sanctioning, rescheduling, restructuring and recollecting the loans.
- ii. Legal environment causing not only delay in recovery of dues but also more geared to protect borrowers, not lenders.

ADVERTISEMENTS:

- iii. Directed/Targeted lending towards priority sectors and neglected areas.
- iv. Diversion of funds for the purpose other than for what the funds were borrowed.
- v. Willful defaults and frauds.
- vi. Business failures due to unsuccessful projects, inefficient management, wrong technology, strained labour relations, product obsolescence etc.
- vii. External causes like industrial recession/sickness, natural calamities, changes in government policies etc.
- viii. Inadequate risk management practices.
- ix. Moral degradation of borrowers.

Magnitude of Non-Performing Assets:

Classification of Loan Assets: Public Sector Banks

Year	Standard Assets	Substandard Assets	Doubtful Assets	Loss Assets	Advances <25000	Total NPAs	Total Advances
	1	2	3	4	5	6=2+3+4+5	7=1+2+3+4+5
31.03.1993	1,30,087	12,552	20,106	3,930	2,665	39,253	1,69,340
31.03.1994	1,24,580	12,163	23,317	4,073	1,488	41,041	1,65,621
31.03.1995	1,58,967	7,758	22,913	3,732	3,982	38,385	1,97,352
31.03.1996	1,89,660	9,299	24,707	4,351	3,304	41,661	2,31,321
31.03.1997	2,00,637	12,471	26,015	5,090	N.A	43,576	2,44,213
31.03.1998	2,39,318	14,463	25,819	5,371	N.A	45,653	2,84,971
31.03.1999	273618	16033	29252	6425	N.A	51710	325328
31.03.2000	326783	16361	30535	6398	N.A	53294	380077
31.03.2001	387360	14745	33485	6544	N.A	54774	442134
31.03.2002	452862	15788	33658	7061	N.A	56507	509369
31.03.2003	523724	14909	32340	6840	N.A	54089	577813
31.03.2004	610435	16909	28756	5876	N.A	51541	661975
31.03.2005	830029	11068	30799	5929	N.A	47796	877825
31.03.2006	1092607	11453	25028	5636	N.A	42117	1134724

Source: Report on Trends and Progress of Banking in India

Analysis of Growth of Non-Performing Assets in Various Banks:

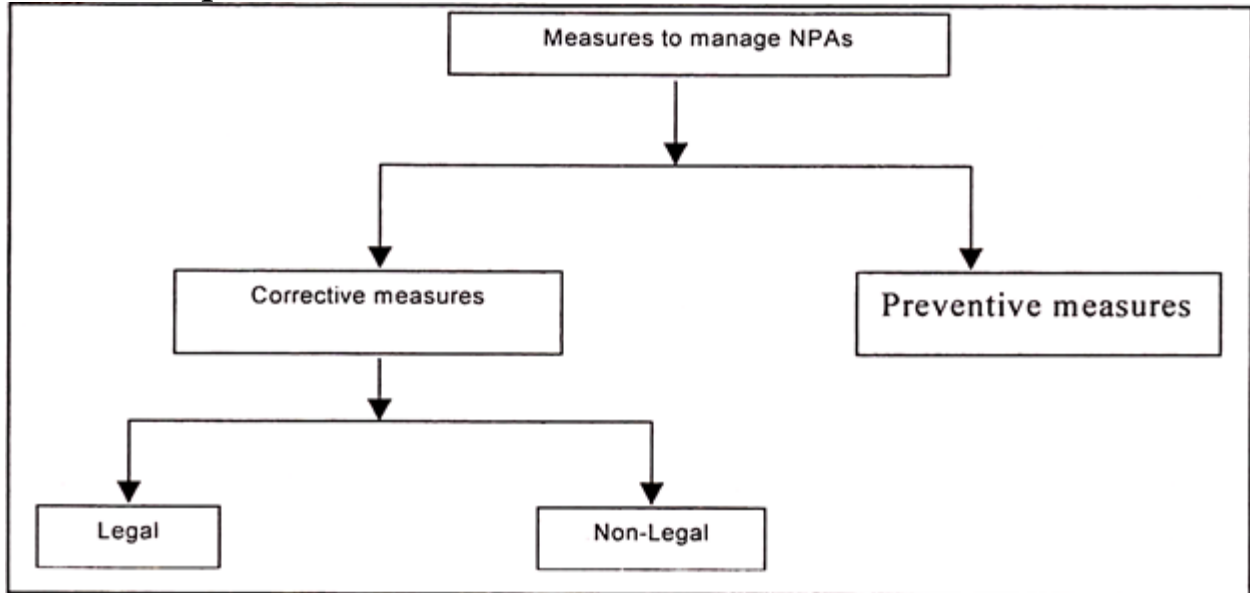
Gross NPAs/Gross Advances

Year	Public sector banks	Private sector Banks	Foreign Banks
31.03.1993	23.2	N.A	N.A
31.03.1994	24.8	N.A	N.A
31.03.1995	19.5	N.A	N.A
31.03.1996	18	N.A	N.A
31.03.1997	17.8	8.5	4.3
31.03.1998	16	8.7	6.4
31.03.1999	15.89	10.81	7.59
31.03.2000	13.98	8.17	6.99
31.03.2001	12.37	8.37	6.84
31.03.2002	11.09	9.64	5.38
31.03.2003	9.36	8.07	5.25
31.03.2004	7.79	5.84	4.62
31.03.2005	5.53	3.77	2.85
31.03.2006	3.7	2.45	1.9
Growth rate	-1.489428571	-0.683878788	-0.412

Measures to Manage the Non-Performing Advances:

The huge piles of NPAs had continued to be a major drag on the performance of banks. The large volume of NPAs reflects both a legacy of past dues and an ongoing problem of fresh accretion.

A number of corrective and preventive measures have been taken from time to time as explained below:



In order to recover NPAs Lok Adalats, debt recovery tribunals, compromise/ settlement scheme, corporate debt restructuring, asset reconstruction companies, national company law tribunal, civil courts, credit information bureau have been established from time to time. Earlier, it has been observed that banks were able to force recovery from smaller borrowers but seemed utterly helpless against large borrowers because of such large willful defaulters taking refuge under the sluggish legal process.

It was often remarked, “If you default paying Rs.1000 to the bank, you are in trouble, but if you default paying Rs.1000 crores, the bank is in trouble.” Recently in 2002, the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act have been passed.

The efficiency of all these measures is analysed on the basis of amount recovered through various measures as shown in the following table:

NPAs recovered by Scheduled Commercial Banks through various channels

Amount (in Rs. Crores)

Legal measures to recover NPAs	2003-04			2004-05		
	No. of cases referred	Amount involved	Amount recovered	No. of cases referred	Amount involved	Amount recovered
1. One time settlement/ Compromise schemes	139562	1510	617	132781	1332	880
2. Lok Adalats	186100	1063	149	185395	801	113
3. Debt Recovery Tribunals	7544	12305	2117	4744	14317	2688
4. SARFAESI Act	2661*	7847	1156	39288*	13224	2391
5. Asset Reconstruction Companies (ARCs)	Nil	Nil	Nil	368	NA	14506

* Number of notices issued u/s 13(2) of SARFAESI Act.

Source: Report on Trends and Progress of Banking in India 2004-05.

Besides these legal measures, a number of non-legal and preventive measures have been taken like recovery camps, rehabilitation of sick units, loan compromises, warning system, circulation of list of defaulters, credit rating, proper follow-up etc.

Management of Non-Performing Assets – An Alternative Solution:

Banks are already taking a number of preventive and corrective measures to reduce the level of NPAs in their portfolio. But to my mind, there cannot be a quick-fix solution to solve this problem. What the banks need to do is to adopt a holistic approach and come out with a detailed plan calling for the different strategies a credit facility passes through. It is suggested that the banks should be more transparent as regards their loan portfolio. They should clearly spell out the absolute figures of NPAs as well as the ratios on quarterly basis as the practice followed in other countries.

Everyone knows that the sources of any advance becoming non-performing is the standard advance. The standard advances if not recovered, slip into sub-standard category and then become doubtful and ultimately lost asset. In accounting, the principle of "Conservatism" is followed i.e. "anticipate no profits but provide for all losses". On this ground, provisioning norms are introduced by banks. But if banks are creating provisions on non-performing advances, can't they create reserve on standard advances? Though there is a practice of taking some security from borrowers before giving loan, but had that security been liquid, sufficient and adequate, the problem of non-performing advances would not have arisen! To my mind, instead of taking some collateral, banks should take some hard cash from borrowers.

Moreover, as in stock markets there is a provision of taking margin money from brokers on behalf of investors, can't banks introduce the system of taking margin money from the borrowers when they lend, so that the same amount can be used if they default?

Historical Development Of Insurance

Insurance in some form is as old as historical society. So-called **bottomry** contracts were known to merchants of Babylon as early as 4000–3000 BCE. Bottomry was also practiced by the Hindus in 600 BCE and was well understood in ancient **Greece** as early as the 4th century BCE. Under a bottomry **contract**, loans were granted to merchants with the provision that if the shipment was lost at sea the **loan** did not have to be repaid. The interest on the loan covered the insurance **risk**. Ancient **Roman law** recognized the bottomry contract in which an article of agreement was drawn up and funds were deposited with a **money** changer. Marine insurance became highly developed in the 15th century.

In Rome there were also burial societies that paid funeral costs of their members out of monthly dues.

The insurance contract also developed early. It was known in **ancient Greece** and among other maritime nations in commercial contact with Greece.

England

Fire insurance arose much later, obtaining **impetus** from the **Great Fire of London** in 1666. A number of insurance companies were started in England after 1711, during the so-called bubble era. Many of them were fraudulent, get-rich-quick schemes concerned mainly with selling their securities to the public. Nevertheless, two important and successful English insurance companies were formed during this period—the London **Assurance** Corporation and the Royal Exchange Assurance Corporation. Their operation marked the beginning of modern **property** and **liability insurance**.

No discussion of the early development of insurance in **Europe** would be complete without reference to **Lloyd's of London**, the international insurance **market**. It began in the 17th century as a coffeehouse **patronized** by merchants, bankers, and insurance underwriters, gradually becoming recognized as the most likely place to find underwriters for **marine insurance**. Edward Lloyd supplied his customers with shipping information gathered from the docks and other sources; this eventually grew into the publication *Lloyd's List*, still in existence. Lloyd's was reorganized in 1769 as a formal group of underwriters accepting marine risks. (The word underwriter is said to have derived from the practice of having each risk taker write his name under the total amount of risk that he was willing to accept at a specified premium.) With the growth of British **sea power**, Lloyd's became the dominant insurer of marine risks, to which were later added fire and other property risks. Today Lloyd's is a major reinsurer as well as primary insurer, but it does

not itself transact insurance business; this is done by the member underwriters, who accept insurance on their own account and bear the full risk in competition with each other.

The underwriting floor at Lloyd's insurance company, One Lime Street, London. © Lloyd's

United States

The first American insurance company was organized by [Benjamin Franklin](#) in 1752 as the Philadelphia Contributionship. The first [life insurance](#) company in the [American colonies](#) was the Presbyterian Ministers' Fund, organized in 1759. By 1820 there were 17 stock life insurance companies in the state of New York alone. Many of the early property insurance companies failed from speculative investments, poor management, and inadequate distribution systems. Others failed after the [Great Chicago Fire](#) in 1871 and the San Francisco [earthquake](#) and fire of 1906. There was little effective regulation, and rate making was difficult in the absence of cooperative development of sound [statistics](#). Many problems also beset the life insurance business. In the era following the U.S. Civil War, bad practices developed: dividends were declared that had not been earned, reserves were inadequate, [advertising](#) claims were exaggerated, and office buildings were erected that sometimes [cost](#) more than the total assets of the companies. Thirty-three life insurance companies failed between 1870 and 1872, and another 48 between 1873 and 1877.

Chicago in Flames, lithograph by Currier & Ives. Library of Congress, Washington, D.C. (digital id: cph 3g03936)

After 1910 life insurance enjoyed a steady growth in the [United States](#). The annual growth rate of insurance in force over the period 1910–90 was approximately 8.4 percent—amounting to a 626-fold increase for the 80-year period. Property-liability insurance had a somewhat smaller increase. By 1989 some 3,800 property-liability and 2,270 life insurance companies were in business, employing nearly two million workers. In 1987 U.S. insurers wrote about 37 percent of all premiums collected worldwide.

Russia

Insurance in Russia was nationalized after the [Russian Revolution](#) of 1917. Domestic insurance in the Soviet Union was offered by a single agency, Gosstrakh, and insurance on foreign risks by a companion company, Ingosstrakh. Ingosstrakh continues to insure foreign-owned property in Russia and Russian-owned property abroad. It accepts

reinsurance from foreign insurers. However, following the movement toward a [free market economy](#) (perestroika) after 1985 and the breakup of the Soviet Union in 1991, some 230 new private insurers were established. Gosstrakh offers both property and personal insurance. The former coverage is mandatory for government-owned property and for certain property of [collective](#) farms. Voluntary property insurance is available for privately owned property. Personal coverages such as life and accident insurance and annuities also are sold.

Before 1991, insurance against tort liability was not permitted, on the ground that such coverage would allow negligent persons to escape from the financial consequences of their behaviour. However, with the advent of a [free market](#) system, it seems likely that liability insurance will become available in Russia.

Eastern Europe

After the breakup of the Soviet Union, countries in eastern Europe developed insurance systems of considerable variety, ranging from highly centralized and state-controlled systems to Western-style ones. Because of recent political and economic upheavals in these countries, it seems likely that the trend will be toward decentralized, Western-style systems.

A few generalizations about insurance in eastern European countries may be made. Although state insurance monopolies are common, they are losing some business to private insurers. Insurance of state-owned property, which was considered unnecessary in socialist states, has been established in several countries.

Unit---4

Historical Development Of Insurance

Insurance in some form is as old as historical society. So-called [bottomry](#) contracts were known to merchants of Babylon as early as 4000–3000 BCE. Bottomry was also practiced by the Hindus in 600 BCE and was well understood in ancient [Greece](#) as early as the 4th century BCE. Under a bottomry [contract](#), loans were granted to merchants with the provision that if the shipment was lost at sea the [loan](#) did not have to be repaid. The interest on the loan covered the insurance [risk](#). Ancient [Roman law](#) recognized the bottomry contract in which an article of agreement was drawn up and funds were deposited with a [money](#) changer. Marine insurance became highly developed in the 15th century.

In Rome there were also burial societies that paid funeral costs of their members out of monthly dues.

The insurance contract also developed early. It was known in [ancient Greece](#) and among other maritime nations in commercial contact with Greece.

England

Fire insurance arose much later, obtaining impetus from the [Great Fire of London](#) in 1666. A number of insurance companies were started in England after 1711, during the so-called bubble era. Many of them were fraudulent, get-rich-quick schemes concerned mainly with selling their securities to the public. Nevertheless, two important and successful English insurance companies were formed during this period—the London Assurance Corporation and the Royal Exchange Assurance Corporation. Their operation marked the beginning of modern [property](#) and [liability insurance](#).

No discussion of the early development of insurance in [Europe](#) would be complete without reference to [Lloyd's of London](#), the international insurance [market](#). It began in the 17th century as a coffeehouse patronized by merchants, bankers, and insurance underwriters, gradually becoming recognized as the most likely place to find underwriters for [marine insurance](#). Edward Lloyd supplied his customers with shipping information gathered from the docks and other sources; this eventually grew into the publication *Lloyd's List*, still in existence. Lloyd's was reorganized in 1769 as a formal group of underwriters accepting marine risks. (The word underwriter is said to have derived from the practice of having each risk taker write his name under the total amount of risk that he was willing to accept at a specified premium.) With the growth of British [sea power](#), Lloyd's became the dominant insurer of marine risks, to which were later added fire and other property risks. Today Lloyd's is a major reinsurer as well as primary insurer, but it does not itself transact insurance business; this is done by the member underwriters, who accept insurance on their own account and bear the full risk in competition with each other.



The underwriting floor at Lloyd's insurance company, One Lime Street, London. © Lloyd's

United States

The first American insurance company was organized by **Benjamin Franklin** in 1752 as the Philadelphia Contributionship. The first **life insurance** company in the **American colonies** was the Presbyterian Ministers' Fund, organized in 1759. By 1820 there were 17 stock life insurance companies in the state of New York alone. Many of the early property insurance companies failed from speculative investments, poor management, and inadequate distribution systems. Others failed after the **Great Chicago Fire** in 1871 and the San Francisco **earthquake** and fire of 1906. There was little effective regulation, and rate making was difficult in the absence of cooperative development of sound **statistics**. Many problems also beset the life insurance business. In the era following the U.S. Civil War, bad practices developed: dividends were declared that had not been earned, reserves were inadequate, **advertising** claims were exaggerated, and office buildings were erected that sometimes **cost** more than the total assets of the companies. Thirty-three life insurance companies failed between 1870 and 1872, and another 48 between 1873 and 1877.



Chicago in Flames, lithograph by Currier & Ives. Library of Congress, Washington, D.C. (digital id: cph 3g03936)

After 1910 life insurance enjoyed a steady growth in the [United States](#). The annual growth rate of insurance in force over the period 1910–90 was approximately 8.4 percent—amounting to a 626-fold increase for the 80-year period. Property-liability insurance had a somewhat smaller increase. By 1989 some 3,800 property-liability and 2,270 life insurance companies were in business, employing nearly two million workers. In 1987 U.S. insurers wrote about 37 percent of all premiums collected worldwide.

Russia

Insurance in Russia was nationalized after the [Russian Revolution](#) of 1917. Domestic insurance in the Soviet Union was offered by a single agency, Gosstrakh, and insurance on foreign risks by a companion company, Ingosstrakh. Ingosstrakh continues to insure foreign-owned property in Russia and Russian-owned property abroad. It accepts reinsurance from foreign insurers. However, following the movement toward a [free market economy](#) (perestroika) after 1985 and the breakup of the Soviet Union in 1991, some 230 new private insurers were established. Gosstrakh offers both property and personal insurance. The former coverage is mandatory for government-owned property and for certain property of collective farms. Voluntary property insurance is available for privately owned property. Personal coverages such as life and accident insurance and annuities also are sold.

Before 1991, insurance against tort liability was not permitted, on the ground that such coverage would allow negligent persons to escape from the financial consequences of their behaviour. However, with the advent of

a [free market](#) system, it seems likely that liability insurance will become available in Russia.

Eastern Europe

After the breakup of the Soviet Union, countries in eastern Europe developed insurance systems of considerable variety, ranging from highly centralized and state-controlled systems to Western-style ones. Because of recent political and economic upheavals in these countries, it seems likely that the trend will be toward decentralized, Western-style systems.

A few generalizations about insurance in eastern European countries may be made. Although state insurance monopolies are common, they are losing some business to private insurers. Insurance of state-owned property, which was considered unnecessary in socialist states, has been established in several countries.

What are the Fundamental Goals of Risk Management?

The first step to defining risk management goals and risk management objectives is to define your organization's shared vision. Once the shared vision is articulated, overall risk management goals and objectives must be defined.

While a vision statement is often aspirational, the goals and objectives should ordinarily describe in simple terms what is to be accomplished. They should be actionable by the organization. They should be defined in the context of the organization's business strategy.

For example, some common risk management objectives chosen by companies to frame their ERM approach include the following:

- Develop a common understanding of risk across multiple functions and business units so we can manage risk cost-effectively on an enterprise-wide basis.
- Achieve a better understanding of risk for competitive advantage.
- Build safeguards against earnings-related surprises.
- Build and improve capabilities to respond effectively to low probability, critical, catastrophic risks.
- Achieve cost savings through better management of internal resources.
- Allocate capital more efficiently.

Risk management goals and objectives should be consistent with and supportive of the enterprise's business objectives and strategies.

Therefore, the organization's business model provides an important context for risk management.

For example:

- It targets the markets and geographies in which the firm does business.
- It specifies the products and services it provides to those markets, the channels it uses to access those markets and the characteristics by which it differentiates its products and services in the eyes of the customer.
- It is built on many important elements: on the processes through which the entity converts materials and labor into products and services; on the employees the entity hires, trains and retains; on the suppliers and customers with which the organization does business; and on the shareholders and lenders that supply it capital.

Business risks are inherent in all of these elements. As the enterprise executes its strategy, it creates and increases its exposures to uncertainty. Therefore, business objectives and strategies provide the context for understanding the risks the enterprise desires to take. COSO affirmed this point by establishing "objective setting" as a component of the ERM framework.

Different Types of Life Insurance Policies in India

1. Term Plan – pure risk cover
2. Unit linked insurance plan (ULIP) – Insurance + Investment opportunity
3. Endowment Plan – Insurance + Savings
4. Money Back – Periodic returns with insurance cover
5. Whole Life Insurance – Life coverage to the life assured for whole life
6. Child's Plan – For fulfilling your child's life goals like education, marriage, etc.
7. Retirement Plan - Plan your retirement and retire gracefully

Let's dive deeper to know each plan in detail.

1. Term Life Insurance

Term insurance is the simplest form of [life insurance plan](#). Easy to understand and affordable to buy.

A [term insurance](#) provides death risk cover for a specified period. In case the life assured passes away during the policy period, the life insurance company pays the death benefit to the nominee. It is a pure risk cover plan that offers high coverage at low premiums.

There's an option to add riders to widen up the coverage.

The death benefit is payable as lump sum, monthly payouts, or a combination of both.

There's no payout if the life assured outlives the policy term. However, these days there are companies offering Term Plans with Return of Premiums (TROPS), where insurance companies payback all the paid premium amount in case the life assured outlives the term period. But, such plans are costlier than the vanilla term insurance plan.

Example: An individual non-smoker male who is looking for a term life plan of Rs.1 crore cover, will cost him approximately Rs.6, 800 to Rs.10, 500 per year.

25	40	Rs.1	Rs.6,800 –
years	years	Crore	Rs.10,500

Best known for: High sum assured (coverage) at a low premium.

Benefit of Term Plan: In case of an untimely death of the breadwinner, family is supported with an enormous amount of money – sum assured, which helps them to [replace the loss of the income](#) caused due to the breadwinner's death. Moreover, the money could be utilized to pay off loan, monthly household expenses, child's education, child's marriage, etc.

2. Unit Linked Plans (ULIPs)

A unit linked plan is a comprehensive combination of insurance and investment. The premium paid towards [ULIP](#) is partly used as a risk cover (insurance) and partly is invested in funds. One can invest in different funds offered by the insurance company depending on his risk appetite. The insurance company then invests the accumulated amount in the capital market i.e. in bonds, equities, debts, market funds, or a hybrid funds...

Example:

20	Rs.2	Rs.20,000	Depending on
years	lakh		the fund
			value at the

time of
maturity.

Best known for: Long-term investment option with much more flexibility to invest.

Benefit of ULIP: Invest money as per your risk appetite. You have the option to invest either in equity, debt or in hybrid funds through the life insurance company with complete transparency.

Related Article: [Term Plan Vs ULIP: What makes more sense](#)

3. Endowment Plans

Endowment plan is another type of life insurance plan, which is a combination of insurance and saving.

A certain amount is kept for life cover – insurance, while the rest is invested by the life insurance company. In an endowment plan, if the life assured outlives the policy term, the insurance company offers him the maturity benefit. Moreover, [Endowment Plans](#) may offer bonuses periodically, which are paid either on maturity or to the nominee under death claim. On death, the death benefit is payable to the nominee.

Endowment plans are also commonly known as traditional life insurance, although, there is an investment component but the risk is lower than the other investment products and so are the returns.

Example:

30	Rs.10	Rs.20,000	Depending
years	lakh	–	on the
		Rs.25,000	Bonus at
			the time of
			maturity.

Best known for: Long-term saving option for people with much lower risk appetite for investment.

Benefit of Endowment Plan: Long-term financial planning and an opportunity to earn returns on maturity.

4. Money Back Life Insurance

Money back plan is a unique type of life insurance policy, wherein a percentage of the sum assured is paid back to the insured on periodic intervals as survival benefit.

[Money back plans](#) are also eligible to receive the bonuses declared by the company from time to time. This way, policyholder can meet short-term financial goals.

Example:

			A	
20	Rs.5	Rs.20,000	percentage	Accrued
years	lakh	–	of Sum	bonuses/Guaranteed
		Rs.25,000	Assured	Money Back +
			paid on	Coverage
			regular	
			intervals	

Best known for: Short-term investment product to meet short-term financial goals.

Benefit of Money Back Plan: Short-term financial planning and an opportunity to earn returns on maturity.

5. Whole Life Insurance

A whole life insurance policy covers the life assured for whole life, or in some cases, up to the age of 100 years. Unlike, term plans, which are for a specified term.

The sum assured or the coverage is decided at the time of policy purchase and is paid to the nominee at the time of death claim of the life assured along with bonuses if any.

However, if the life assured outlives the age of 100 years, the insurance company pays the matured endowment coverage to the life insured.

The premiums are higher as compared to term plans. [Whole life insurance](#) plans also offer partial withdrawals after completion of premium payment term.

			Guaranteed
			Sum Assured
			+ non-
			guaranteed
20	Rs.3	Rs.10,000-	bonus (if
years	lakh	Rs.15,000	any) + non-
			guaranteed
			terminal
			bonus (if
			any)

Best known for: Life coverage for whole life.

Benefit of Whole Life Plan: Lifelong protection to the insured and an opportunity to leave behind a legacy for heirs.

6. Child Plan

Child plan helps to build corpus for child's future growth. Child plans help to build funds for child's education and marriage. Most of the [Child Plan](#) provides annual installments or one time payout after the age of 18 years.

In case of an unfortunate event, the insured parent passes away during the policy term - immediate payment is payable by the insurance company. Some child plans waive off the future premiums on death of the life insured and the policy continues till maturity.

20	Rs.18	Rs.1	Lump sum payouts on regular interval	Maturity benefit + guaranteed returns + non-guaranteed accumulated bonus (if any)
years	lakh	lakh		

Best known for: Building funds for your child's future.

Benefit of Child Plan: Helps in fulfilling your child's dream.

7. Retirement Plan

[Retirement plan](#) helps to build corpus for your retirement. Helping you to live independently financially and without worries. Most of the child plans provide annual installments or one time payout after the age of 60 years.

In case of an unfortunate event, life assured passes away during the policy term - immediate payment is payable to the nominee by the insurance company. Death benefit will be higher of coverage or fund value or 105% of premiums paid. Vesting Benefit will be payable if the life assured survives the maturity age. In which case, payout will be fund value which has to be utilized for buying an annuity. **Best known for:** Long-term savings and retirement planning.

Benefit of Retirement Plan: Helps in building corpus for retirement.

This is just a simplified guide to different types of life insurance policies.

Get an expert's advice from Coverfox.com on buying the right life insurance plan.

Moreover, Coverfox offers **NOMINEE ASSISTANCE PROGRAM: That helps the family of the life assured at the time of claim.**

Here are the biggest challenges for insurance companies.

1. Lack of trust

This is a reason why many individuals don't bother with insurance. Many insurance firms fail to pay claims, and they don't own up to offering some benefits. Therefore, most people just see insurance as one of the unnecessary expenses. Many insurance firms do shut down because of financial challenges and individuals who are the victims of the loss don't even think twice about purchasing insurance policies.

2. Competition

Today, there are many insurance firms on the market and therefore there is an **intensive challenge for insurers**. Each company looks for the best way of selling their insurance products in the best possible way and targets a particular group of individuals. Most insurance businesses, especially the new ones are the most doubted companies. In fact, most people trust some of the existing insurance firms compared to the new businesses since the new enterprises are operated on a thin line between failure and success—and no one will want to take such risks with the little amount of money that they have.

3. Mismanagement

As the owner of the insurance business, one is solely responsible for all issues that his or her clients may have regarding the management of the insurance business. All insurance firms that are mismanaged can't hide their faults for a longer time without the clients noticing. As time moves, there will be a constant increase in the number of clients' complaints, and if his or her insurance firm is not transparent, then he or she will lose more customers. Also, incompetent management may cost the company a lot, particularly if they have poor communication with their clients.

In case an individual's premiums are high, he or she should not advertise. They should look for a market for that policy instead of lying to the general public or even form strategies whereby the clients cut on expenses like providing no-exam life insurance quotes.

4. Economic instability

When the country's economy is down, all insurance companies will be affected. At such situations, the rates can be affected such that the insurance companies might be forced to increase their rates, just like interest rates on credit facilities provided by financial institutions.

Of course, no client will appreciate this, even if it is stated clearly in the contract that the insurance rates might change from time to time. Therefore, such situations might create a bad image for a company since customers can spread the information about a service or product they were not happy with very fast.

5. Weak manpower

Non-professionals run many of the insurance companies today. In fact, many people think that what it takes to be an insurance professional is just some knowledge of monetary studies with no specialized training. Indeed, this has majorly affected the dependability and operations of insurance firms in this century.

6. Excessive politicization of the insurance industry

Without a doubt, politics play a significant role in insurance companies' operations depending on the power play & calculations that are dominant in the operating domains of the insurance firms. The premiums to pay, the outcomes of risk investigations, and the damages and benefits to pay depend on political conspiracy sometimes.

These are some of the biggest challenges that are faced by insurance companies. They include mismanagement, economic instability, lack of trust, and competition among others.

Insurance Regulatory and Development Authority of India

Composition of the Authority

The Authority Comprises of the following members mentioned below;-

1. The Authority comprises of chairman, whole time members and part time members and together they act as a group of members and work jointly not individually like Controller of Insurance.
2. The Authority will continue to work even in cases of death or resignation.
3. The Authority is a body corporate with perpetual succession and a common seal.
4. The Authority has the power to sue or can be sued in its own name.

Powers & Functions of the Authority

Section 14 of the Insurance Regulatory and Development Authority of India Act, 1999 states the powers and functions of the IRDA. The power and functions of the Authority are as follows:

1. The Authority aims to protect the interest of the insurance policyholders in the matters related to surrender value of the policy, settlement of insurance claims, insurable interest, nomination by policy holders etc.
2. The authority gives the Certificate of Registration to the applicant. It can also renew, modify, withdraw, suspend or even cancel the registration of the applicant
3. The Authority states the qualifications, code of conduct and practical training for the intermediaries and insurance agents.
4. The Authority promotes the efficiency in the conduct of the business of insurance.
5. The Authority states the code of conduct for surveyors and loss assessors.
6. The Authority promotes and controls the professional organizations that are connected with the insurance business. It levies fees and charges for carrying the purpose of this Act.
7. The Authority has the power to call for information, conduct investigation, audit and enquiry of the insurers, insurance intermediaries and organization connected with the business of insurance.
8. The Authority controls and regulate the rates, gains terms and conditions that are offered by the insurers with respect to the general insurance business.
9. The investment of funds by the insurance companies are regulated by the Authority.
10. The Authority regulates the margin of solvency.
11. The Authority provides dispute resolution between the insurers and insurance intermediaries.
12. The Authority controls the working of Tariff Advisory Committee.

13. The Authority lay down the percentage of premium income of the insurer to fund the schemes for promoting and controlling the professional organizations.
14. The Authority lay down the percentage of life insurance and general insurance business that can be carried out by the insurer in the rural or social sector.

Role of Insurance Regulatory and Development Authority (IRDA)

1. To protect the interest of and ensure just treatment to insurance policy holders.
2. To encourage and ensure the systematic growth of the insurance industry so as to benefit the common man and help in bringing economic growth.
3. To set, promote, monitor and apply high standards of integrity, fair dealing, financial viability and capability of those it regulates.
4. To ensure clarity, preciseness, transparency while dealing with the insurance policy holder. The Authority ensure that correct information about the products and services is passed on to the policy holders along with making them aware of their responsibilities.
5. To provide dispute resolution mechanism and ensure speedy settlement of genuine claims. The Authority must check insurance scams and other misconducts.
6. To take suitable steps against circumstances where set standards do not prevail or inappropriately enforced.
7. To bring about the optimal amount of self-regulation in day-to-day activities of the industry reliable with the requirements of the prudential regulation.

Effect of Insurance Regulatory and Development Authority (IRDA)

Effect on Regulation of Insurance Industry

Insurance Regulatory and Development Authority regulates the Insurance sector. It aims to protect the interest of the insurance policy holders. It also encourages and ensure the systematic growth of the insurance industry.

Effect over protection of policyholders

IRDA has great impact over the protection of policyholders. The Authority aims to provide fair treatment to all the policyholders.

Effect over Awareness about Insurance

IRDA is taking steps to increase awareness amongst the masses about the benefits of insurance. There is a separate Consumer education website of IRDA to educate people about insurance.

Effect over Insurance Market

There is a drastic effect of Insurance Regulatory and Development Authority over insurance market. IRDA regulates the insurance market and ensure the systematic and speedy growth of the insurance market.

Effect over Development of Insurance Product

All the insurance companies must take approval from Insurance Regulatory and Development Authority before launching any new product or before making any changes in the existing product or withdrawing a product. The insurers who wishes to launch a new product or make

changes to the existing product or withdrawing a product shall submit an application to the Authority in the prescribed form along with the necessary details and reasons for the change reasons. The authority may ask for additional information if required. If no information is asked for then the insurer can start selling the product. The insurer can introduce the new product after allowing it for 60 days for non-life and 30 days for life for clearance by IRDA. This might be delayed due to lack of details about the product, which is necessary to assess the product before approval is given by the Authority.

Effect on Competition between Private and Public sector

As there is more demand from the customer for new, beneficial and improved insurance products, there is a healthy competition amongst the insurers. This acts as a boon to the customer. Improved products along with attractive schemes has been designed by the public sector to give tough competition to the private sector.

Effect over Banks and Post Offices

With the increasing awareness amongst people about the benefits of insurance, the flow of funds have shifted to the insurance industry from Banks and Post Offices. Insurance has become a medium for not only covering losses and risks but has also become a popular way to save tax.

Bhopal Gas tragedy – Importance of Insurance

A Story of Industrial Disaster vis-à-vis Insurance Protection

In 1970, Union Carbide India Ltd (UCIL) established a pesticide manufacturing plant in Bhopal. Pesticides are substances, which shield crops from being damaged by pests. Pesticides are toxic chemicals. In December 3, 1984, a fatal gas, namely, Methyl Isocyanate (MIC) started leaking from a tank at UCIL Bhopal plant. Due to leakage of this fatal gas, approximately 3,800 people lost their lives and many other suffered other health related ailments.

Human life is precious and nothing can compensate the loss of a life. The company was bound to pay compensation to the dependents of the victims to lost their lives. UCIL had to compensate for the damages caused.

Even though human life is invaluable but this situations like these Insurance acts as a big relief. Insurance helps to recover the losses to some extent as the resulting financial liabilities could be transferred to the insurer. Insurance acts as a preventive measure for the unforeseen events, which reduces the financial burden.

Ultimately, an Act was introduced to provide damages to the sufferers of the accidents, which has resulted due to the handling of hazardous chemicals. The Act is Public Liability Insurance Act, 1991, which is applicable to all the owners, related with the manufacturing or handling of the hazardous substance.

Workmen Compensation Act, 1923 also provide compensation to employees in case of injury at the workplace. The employer is liable to pay compensation to the injured employee in case of mishappening. The amount of compensation depends on various factors like nature of the injury, age of the employee, the average monthly wage of the employee.

Furthermore, if the victims who died in the Bhopal gas tragedy had their lives insured, their families would have received some amount of money as help. Money cannot compensate anyone's life but it can surely act as some support to tide over their loss. In today's time of uncertainty, everyone must take the benefit of insurance.

Conclusion

Indian economy is growing rapidly. There are several new players in the insurance industry, which has opened new opportunities and has contributed the employment generation. Insurance awareness is very important at different levels of the society. Individuals should know the importance and the consequent benefits of insurance. In order to achieve higher levels of penetration and spread of insurance among larger sections of the population, the insurance companies should pay more concentration on the rural communities rather than the urban and the higher segment of the society. With IRDA in place, the insurance sector is regulated and the interest of the policyholders is ensured. IRDA also has to bring necessary changes whenever required in consultation with the stakeholders.

Pension plans are plans maintained by employers that help individuals secure their financial future and protect them from any uncertainties that may arise post retirement. These plans are best suited for senior citizens that are looking to effectively plan their retirement.

The following are considered the top 10 pension plans in India at present:

1. LIC Jeevan Akshay 6 Plan:

The [LIC Jeevan Akshay 6 policy plan](#) is an immediate annuity plan, which can be bought by paying a lump sum amount as a single premium. The pension starts immediately after buying the plan.

Features and benefits:

- Premium paid in lump sum
- Pension/annuity payment can be received either monthly, quarterly, half yearly or yearly
- No medical examination required to avail of this plan
- Minimum purchase price of Rs 1 lakh for offline distribution channels and Rs 1.50 lakh for online distribution channels
- No maximum limits for purchase price, annuity etc
- Minimum entry age is 30 years and maximum entry age is 85 years
- Age proof is mandatory
- Premium paid is exempt from tax

2. LIC Jeevan Nidhi Plan:

The LIC Jeevan Nidhi plan is a with profits pension plan. The accumulated amount of [LIC Jeevan Nidhi plan](#) is used to generate pension for the policyholder based on his or her survival past the policy term.

Features and benefits:

- Premiums paid are exempt under Section 80CCC of the Income Tax Act
- For the first five years, the policyholder will receive guaranteed additions @ Rs.50/- per thousand Sum Assured for each completed year
- The policy will participate in profits of the corporation from the sixth year onwards based on terms determined by the Corporation
- Minimum basic Sum Assured is Rs 1 lakh under regular premium and Rs 1.50 lakhs under single premium policies
- No maximum limit for basic Sum Assured
- Policy term ranges from 5 - 35 years
- Minimum vesting age of 55 years and maximum of 65 years

3. SBI Life Saral Pension plan:

The [SBI Life Saral Pension plan](#) is an individual, participating, non linked, traditional pension plan, which offers the policyholder protection from market fluctuation and volatility.



Features and benefits:

- Guaranteed bonuses for the first 5 years, @ 2.50% of the sum assured for the initial three years and 2.75% of the sum assured for the following two years
- The policyholder is assured of vesting bonuses on maturity of the plan
- The minimum policy term is 10 years and the maximum term is 40 years
- Minimum premium payment of Rs 7,500 per annum with no maximum limit
- Minimum entry age is 18 years and maximum is 65 years
- Minimum maturity age of 40 years and maximum of 70 years
- Minimum Sum Assured of Rs 1 lakh with no maximum limit

4. HDFC Life - Click2Retire:

The [HDFC Life - Click 2 Retire plan](#) is an online Unit Linked Plan that offers the policyholder market linked returns with minimal charges, which helps in meeting post-retirement requirements.

Features and benefits:

- Guaranteed vesting benefits as well as additional gains from the market
- Minimum entry age of 18 years and maximum of 65 years
- Low maturity age of 45 years and maximum of 75 years
- Death benefits to the nominee will be higher of the fund value of the policy or 105% of premiums paid till then
- Tax benefits under Section 80C and Section 10(10A) of Income Tax Act 1961

5. HDFC Life - Assured Pension Plan:

The HDFC Life - Assured Pension Plan is a Unit Linked Pension Plan that offers market linked returns with loyalty additions to the policyholder to meet retirement goals.

Features and benefits:

- Guaranteed vesting benefits as well as additional gains from the market
- Loyalty additions every alternate year from the 11th year onwards

- Minimum entry age of 18 years and low vesting/maturity age of 45 years
- Limited and single pay options
- Death benefits to the nominee will be higher of the fund value of the policy or 105% of premiums paid till then
- Tax benefits under Section 80C and Section 10(10D) of Income Tax Act 1961

6. ICICI Pru - Easy Retirement:

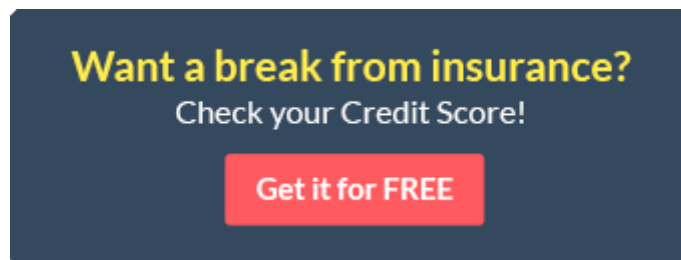
This plan helps the policyholder receive regular income once his or her salary stops post retirement through equity investment. [ICICI Pru Easy Retirement](#) generates good long term returns and offers protection against market volatility.

Features and benefits:

- Minimum premium of Rs 48,000 per annum with no maximum limit
- Monthly, half yearly and yearly payment frequency modes
- Minimum entry age of 35 years and maximum of 70 years
- Minimum vesting age of 45 years and maximum of 80 years
- The policy is offered for 10, 15, 20, 25, and 30 years
- Tax benefits on premiums and benefits

7. Reliance - Smart Pension:

The [Reliance Smart Pension Plan](#) is a non participating Unit Linked Pension Plan that helps the policyholder save in a systematic manner in order to build up a lump sum to generate regular income after retirement.



Features and benefits:

- The policy term ranges from 10 - 30 years
- Double benefit of equity participation plus capital guarantee
- Receive guaranteed loyalty additions
- Minimum vesting age of 45 years and maximum of 75 years
- Income tax benefits under Section 80C and section 10(10A) of Income Tax Act 1961

8. Bajaj Allianz - Pension Guarantee:

The [Bajaj Allianz Pension Guarantee plan](#) assures the policyholder of a guaranteed, regular income post retirement for the duration of his or her lifetime, with a range of immediate annuities to choose from.

Features and benefits::

- Six annuity options to choose from
- Minimum entry age of 37 years and maximum age of 80 years
- Minimum purchase price of Rs 25,000 with no maximum limit
- Minimum annuity installment of Rs 1,000(monthly) and the maximum annuity installment is Rs.12,000 (yearly)
- Option to extend annuity to the spouse

9. Max Life Guaranteed Lifetime Income Plan:

The [Max Life Guaranteed Lifetime Income Plan](#) is a non-linked traditional annuity plan that guarantees the policyholder a regular stream of income after his or her retirement.

Features and benefits:

- Option to receive life-long payments for as long as you and your spouse are alive
- Purchase price of the policy is returned to the nominee after death of the policyholder
- Pension can be received on a monthly, quarterly, half-yearly or yearly basis
- Four annuity options to choose from
- Option to choose a onetime lump sum amount to pay to purchase the policy



10. Birla Sun Life Empower Pension:

The [Birla Sun Life Empower Pension plan](#) is a unit linked, non-participating pension plan designed to enhance the policyholder's savings post retirement.

Features and benefits:

- Policy term ranges from 5 – 30 years subject to a maximum age of vesting of 80 years
- Minimum entry age of 25 years and maximum age of 70 years
- Option to choose your policy premium amount
- Option to choose vesting date to have accumulation period of 5 – 30 years
- Choose risk profile based on risk appetite

Products you might be Interested

-  [Health Insurance](#)
-  [Car Insurance](#)

Unit—4

NOW

Insurance

Insurance is a means to manage a contingent loss through which responsibility for a risk is transferred to another party in exchange for payment before the loss. The cost of insurance is based upon the insurance company's pooling of similar risks, occurrences that can be estimated using statistical modeling (actuarial analysis). An insurance company earns revenue from premiums, as well as the investment of those premiums in various financial instruments/markets. Insurance can be purchased by individuals for life, health, property and liability losses. Corporations purchase insurance to cover liability, property, business and executive health and life risks. Insurance can be purchased directly from a company, through "captive" agents working for a single firm or through independent insurance agents who sell products from multiple insurance providers.

Common Insurance job titles: Chief Executive Officer (CEO), Chief Operating Officer (COO), Chief Financial Officer (CFO)

Lines of Business

Lines of Business (LOB) refers to specific products and services offered by insurance companies to both individual and commercial clients. Major LOBs typically include Commercial Insurance, Health Insurance, Investment Management, Life Insurance, Property & Casualty Insurance, Reinsurance and Risk Management. The insurance agents and back office staff members are responsible for pricing these products/services, generating new business and managing policyholder relationships. LOBs are supported by back office staff members, who work to perform non-customer-facing tasks like claims processing, customer service support, payment collection, and policyholder onboarding.

Common Lines of Business job titles: Business Unit Manager, Business Team Manager, Business Manager, Business Controller

Commercial/Institutional Lines

The Commercial/Institutional Lines Group offers property and casualty insurance products to businesses. Commercial/Institutional Lines insurance include products such as commercial auto insurance, workers compensation insurance, federal flood insurance and so on. Commercial/Institutional lines protect businesses against potential losses (caused by accidents, lawsuits, natural disasters, etc.) they could not cover on their own. Coverage availability and premium costs vary by business type, size and location.

Common Commercial/Institutional Lines job titles: Commercial Insurance Account Executive, Commercial Lines Insurance Account Manager, Commercial Insurance Agent, Commercial Insurance Broker

Health Insurance

The Health Insurance line of business offers health plan benefits to customers. While there are several insurers that focus exclusively on health insurance, many multi-line insurers also offer health coverage. Health insurance can be provided on an individual or group (company or family coverage) basis and provides coverage for medicine, visits to the doctor or emergency room, hospital stays and other medical expenses. Health insurance is often included in employer benefit packages as a means of attracting quality employees.

Common Health Insurance job titles: Insurance Agent, Insurance Broker

Investment Management

The Investment Management line of business offers traditional retail investment products to customers. Investment products and services typically offered by insurance firms include annuities, universal life insurance, retirement planning and investment and college savings plans. Some insurance companies may offer investment solutions for businesses.

Common Investment Management job titles: Investment Management Analyst, Investment Management Associate, Investment Strategist, Investment Consultant

Life

The Life Insurance Group provides policyholders protection against the loss of income that would result if the insured passed away. The named beneficiary or beneficiaries then receive the proceeds and are thereby safeguarded from the financial impact of the death of the insured. Depending on the contract, some events such as terminal illness can trigger payment to the beneficiaries, while other events such as claims relating to suicide, or fraud are written as exclusions so as to limit the liability of the insurer. Life-based insurance contracts tend to fall into two major categories: protection policies and investment policies.

Common Life job titles: Life Insurance Agent, Life Insurance Sales Agent, Insurance Customer Service Agent

Property & Casualty

The Property & Casualty (P&C) Group provides coverage that protects against property losses such as to a home, car or other property, while also providing liability coverage to help protect policyholders if found liable for an accident that causes injuries to another person or damage to another person's belongings. P&C insurance can also cover the medical expenses of individuals involved in accidents as well as restitution or repair of damaged property. P&C insurance policies can cover several property types - aviation insurance, boiler and machinery insurance, marine insurance, earthquake insurance, renters insurance, etc.

Common Property & Casualty job titles: Insurance Property & Casualty Sales Representative, Insurance Agent, Insurance Representative, Client Service Specialist, Property & Casualty Insurance Broker

Reinsurance

The Reinsurance Group (usually called a reinsurer) takes on all or part of the risk covered under a policy issued by another insurance company (usually called a cedent) in exchange for a percentage of the premium payment. This allows cedent companies to reduce the likelihood of having to pay a large amount of money should one or more policyholders file claims that would financially destabilize the company (this usually occurs after a major disaster such as a hurricane or earthquake). The reinsurer may be either a company specializing in reinsurance, or another insurance company.

Common Reinsurance job titles: Senior Enterprise Risk Management Analyst, Reinsurance Accounting Technician, Risk Analyst, Reinsurance Associate, Reinsurance Administration Specialist, Reinsurance Analyst

Risk Management

The Insurance Risk Management function researches and analyzes potential liabilities for insurance policies based on potential hazards and risks. Such risks can originate from the policyholders themselves (how likely the policyholder will pay the premium and/or cause a claim to be filed), the location of the policyholder (how likely a flood will occur in an area, for instance), how lucrative an investment is (how likely the investment will incur a financial loss for the company) and so on. Based on the information gathered, companies can either accept or attempt to mitigate the risk.

Common Risk Management job titles: Insurance Risk Management Specialist, Risk Management Consultant, Risk Management Analyst

Back Office Operations

Insurance Back Office Operations refers to a set of essential non-customer-facing administrative and support services. The Back Office is responsible for managing several activities such as claims processing, policyholder service/support, premium payment collection, internal investments, underwriting and insurance application processing. Back Office staff members support both the insurance company's agency operation and individual lines of business such as Commercial & Institutional Lines, Health Insurance, Investment Management, Life Insurance, Property & Casualty Insurance, Reinsurance and Risk Management.

Common Back Office Operations job titles: Operations Specialist/Analyst, Customer Service Representative, Insurance Service Representative, Insurance Agent

Claims Processing

The Claims Processing function is tasked with examining and processing insurance claims, paper and/or electronic. Processors determine whether to return, pend, deny or pay claims within the client's policy guidelines and determine steps necessary for adjudication. In addition, claims processing compares claim applications and/or provider statements with policy files and other records to evaluate completeness and validity of a claim.

Common Claims Processing job titles: Claims Processor, Claims Coordinator, Claims Adjuster, Claims Examiner, Claims Investigator

Investments

Insurance company investment functions are responsible for taking profits earned from policyholder premium payments and investing them in financial instruments such as bonds, stocks, mortgages and real estate. In some cases, insurance investment teams may also lead mergers and acquisitions. The management of the investment function is an important element of an insurance company's profitability. Insurance companies face less regulation, on the securities trading front, than banking, broker dealer and investment management companies.

Common Investments job titles: Investment Specialist, Investment Associate, Investment Analyst, Investment Consultant

New Business Processing

The New Business Processing function is responsible for 'onboarding' new insurance policyholders. They collect the requisite information, pass that information to the appropriate underwriting and application processing staff members (based on application type, language requirements and product knowledge) to assess the appropriate premium and coverage levels, then communicate options and premium/deductible structures to the prospective policyholder.

Common New Business Processing job titles: New Business Specialist, Insurance Agent, Insurance Broker, Application Processor

Policyholder Services

The Policyholder Services, or In-force Customer Service, function is tasked with serving as the customer's reference point for all questions and needs concerning the policyholder's insurance policy and its related products. This function provides personal service support to internal and external customers for all areas within and outside the company. Additional tasks involve payment collection, offering advice on various insurance products or services, policy renewals, and providing accurate responses to other policyholders, providers and employee representatives as needed for issue resolution. High quality customer service is a key differentiator in the hyper-competitive insurance industry.

Common Policyholder Services job titles: Member Care Representative, Policy Service Representative, Customer Service Representative, Customer Care Associate

Payments & Commissions

The Payments & Commissions function is responsible for collecting customer premiums, processing salaries and commissions and distributing any applicable benefits to insurance agents. Though commissions are the most common form of compensation for insurance agents (amounts depend on the type and amount of insurance sold as well as whether the transactions are new policies or renewals), salaries are also managed and distributed.

Common Payments & Commissions job titles: Insurance Compensation Analyst, Payroll & Commissions Administrator, Commissions Specialist, Payroll Analyst

Agency Operations

The Insurance Agency Operations function manages the firm's network of insurance agents and brick and mortar branch offices. Agency operations managers are responsible for recruiting staff members (sales and non-sales), ensuring that all agents have the proper licensing and training to sell products on the firm's behalf, distributing marketing collateral, attracting and educating potential policyholders and monitoring the performance of agency offices. As more potential customers move to the internet and other direct channels to receive quotes and complete insurance applications, the importance of

superior customer service, policyholder retention, effective use of technology and marketing/advertising reach for physical agency branch locations has taken on increased importance.

Common Agency Operations job titles: Agency Business Consultant, Sales Manager Assistant, Insurance Service Operations Analyst, Operations Agent

Agency Office Administration

The Agency Office Administration function manages insurance policies (whether for customers or for company employees), dealing with the paperwork and the details of insurance contracts. Insurance agency office administration staff act as liaisons between employees and insurance companies (i.e., "the home office"), conduct administrative tasks as needed, makes sure the company's insurance certificates are in full compliance and helps the company develop policies for risk management and loss control.

Common Agency Office Administration job titles: Insurance Administrative Assistant, Agency Office Assistant, Insurance Office Assistant, Insurance Office Receptionist

Agent Recruiting

The Agent Recruiting function attracts, screens and selects quality candidates for open insurance agent positions within the company. This group identifies vacancies, develops position descriptions, formulates a strategic recruitment plan (includes posting positions on social media and other platforms, performing guest lectures at universities, attending job fairs and networking events, etc.), reviews candidates and sends selected candidates to the HR Department for further review. Some recruiters review applicants themselves and select individuals to be hired. Recruiters fall into two categories: internal and external recruiters.

Common Agent Recruiting job titles: Insurance Sales Recruiter, Insurance Recruiter, Insurance Recruiting Specialist

Agent Revenue Production (Sales)

The Agent Revenue Production (Sales) group is the main force behind insurance companies and involves the agents themselves. Also known as the Insurance Sales Team, or "Sales Force," this group is responsible for generating sales (involves new business, renewals and so on) for one or more insurance companies by contacting and meeting with potential clients, providing information concerning one or more types of insurance policies and generating accurate and timely insurance premium quotes. Many agents spend a lot of their time marketing their services and creating their own base of clients. Insurance agents fall under two categories: captive agents (agents who work for one insurance company) and independent insurance agents (agents who work for insurance brokerages).

Common Agent Revenue Production (Sales) job titles: Insurance Sales Agent, Insurance Agent, Insurance Sales Associate, Insurance Service Representative, Insurance Sales Producer

[PERSONAL FINANCE](#) [INSURANCE](#)

Insurance Underwriter

By [CAROLINE BANTON](#)

Updated Apr 26, 2019

What Is an Insurance Underwriter?

Insurance underwriters are professionals who evaluate and analyze the risks involved in insuring people and assets. Insurance underwriters establish

pricing for accepted insurable risks. The term underwriting means receiving remuneration for the willingness to pay a potential risk. [Underwriters](#) use specialized software and actuarial data to determine the likelihood and magnitude of a risk.

2:19

What is Underwriting?

KEY TAKEAWAYS

- Insurance underwriters evaluate the risks involved in insuring people and assets and establish pricing for a risk.
- Underwriters in investment banking guarantee a minimum share price for a company planning an IPO (initial public offering).
- Commercial banking underwriters assess the risk of lending to individuals or lenders and charge interest to cover the cost of assuming that risk.
- Insurance underwriters assume the risk of a future event and charge premiums in return for a promise to reimburse the client an amount in the event damage or occurs.

Investment Banking Underwriters

The underwriters of an investment bank often guarantee a share price to a company during an [initial public offering](#) (IPO). They may buy the shares at a certain price and hope to sell them at a higher price. If the bank does not sell the shares at the guaranteed price, it must hold the shares on their books or sell them at a loss. If the shares are in demand, the bank can profit by selling the securities at a higher price.

Insurance Underwriters

Insurance underwriters assume the risk involved in a contract with an individual or entity. For example, an underwriter may assume the risk of the cost of a fire in a home in return for a premium or a monthly payment. Evaluating an insurer's risk before the policy period and at the time of renewal is a vital function of an underwriter.

For example, homeowners insurance underwriters must consider numerous variables when rating a homeowner's policy. Property and casualty insurance agents act as field underwriters, initially inspecting homes or rental properties for conditions such as deteriorated roofs or foundations that pose a risk to the carrier. The agents report hazards to the home underwriter. The home underwriter additionally considers hazards that may trigger a liability claim.

Hazards include unfenced swimming pools, cracked sidewalks, and the presence of dead or dying trees on the property. These and other hazards represent risks to an insurance company, which may eventually be required to pay liability claims in the event of accidental drownings or slip and fall injuries.

Inputting a number of factors, which often includes an applicant's [credit rating](#), homeowner insurance underwriters employ an algorithmic rating method to pricing. The system generates an appropriate premium based on the platform's interpretation and the combination of all data reported from the observations of the field underwriter. The lead underwriter also subjectively considers answers submitted by the applicant on the policy application when arriving at a premium.

Insurance companies must balance their approach to underwriting: if too aggressive, greater-than-expected claims could compromise earnings; if too conservative, they will be outpriced by competitors and lose market share.

Commercial Banking Underwriters

Commercial banking underwriters assess the credit-worthiness of borrowers to decide whether the individual or entity should receive a loan or funding. The borrower is typically charged a fee to cover the lender's risk if the borrower [defaults](#) on the loan.

Medical Stop-Loss Underwriters

Medical [stop-loss](#) underwriters assess risk based on the individual health conditions of self-insured employer groups. Stop-loss insurance protects groups that pay their own health insurance claims for employees rather than paying premiums to transfer all of the risk to an insurance carrier.

Self-insured entities pay medical and prescription drug claims plus administration fees out of company reserves and assume the risk posed by the potential for large or catastrophic losses such as organ transplants or cancer treatments. Underwriters for self-insured entities must thus assess the individual medical profiles of employees. [Underwriters](#) also evaluate the risk of the group as a whole and calculate an appropriate premium level and aggregate claims limit, which, if exceeded, may cause irreparable financial harm to the employer.

Fast Fact

≡

INSURANCE BASICS

How Life Insurance forms an important element of your Financial Planning

TOTAL READS

4,698



Financial planning is a strategic way to ascertain the availability of adequate funds or reserves for the accomplishment of financial objectives or to meet unplanned contingencies. We all work hard to secure a better tomorrow for our loved ones. Life is a long journey which comprises of various financial objectives and uncertain exigencies.

To offer you a [financial cover against unpredictable events](#) and to accomplish the financial goals of life, a life insurance policy is an appropriate proposition to invest into as a part of your audacious financial planning.

A life insurance plan forms a vital constitution of one's financial planning in the following ways:

- **Protection for your loved ones**

A life insurance policy acts as a financial backup plan for your loved ones. You pay a fixed amount of premium to the insurer, and in return, you get a life cover against your life in the form of a death benefit. So, in the event of your unfortunate demise, your family will be financially compensated with the sum assured plus additional benefits (if any) as per your life [insurance policy](#).

- **Saving and Investment**

Life insurance policy acts as an appropriate saving and investment tool. With the periodic, regular and systematic payment of premium, the sum assured increases with various cumulative benefits like simple/compounded bonuses, guaranteed additions, loyalty benefits, etc. during the term of your life insurance policy. Additionally, it brings discipline in your investment approach. You may either [invest in market linked](#) or traditional life insurance plans as per your risk appetite and capacity to pay. The life insurance policy acts as a saving tool as it offers a guaranteed maturity benefit to attain various financial goals set in your life.

- **Manage risk against debts**

By investing in a life insurance plan, the benefit of managing risk against debts and loans is covered. A term insurance policy with a similar policy term as of your outstanding loan will reduce the risk of inability of repayment of loans in the event of your untimely demise. So, after your death, the burden of outstanding loans and debts will not be passed to your loved ones.

- **Achieve long term goals**

Long term goals like buying a car, home, education of your kids, marriage of your children and planning for your retirement, need a well analyzed and early start of financial planning. A life insurance policy with an adequate life insurance cover will help you attain different long term financial goals. Life insurance policies are a long term contract which offers a variety of insurance plans to achieve your specific or multiple financial goals by opting the right mix of insurance plans. It keeps your investment intact for a long and continuous period of time towards a planned and secure financial future.

- **Tax saving**

A life insurance policy also acts as a tax saving tool as the premium which you pay towards your policy is available for tax benefit under section 80C of Income Tax Act, 1961. The insurance policy proceeds which you receive from your life insurance policy are also tax deductible under section 10 (10)D of the Income Tax Act, 1961.

Financial planning is a major step towards a better and prosperous tomorrow. Making life insurance policy as a part of your financial plan is a stepping stone to safeguard the future of your loved ones. A life insurance policy offers a bundle of benefits to accomplish your set financial goals with a disciplined outflow of money in the form of a premium. A life insurance policy will prove to be more fruitful if taken at an early stage as the premiums are directly proportional to the age at which the policy is bought. It is a safe and secure form of saving which needs to be reviewed periodically to accomplish the changing objectives of life as per the evolution of scenarios of life.

Author's Bio

Harjot Singh Narula, Founder & CEO, www.comparepolicy.com

Similar Articles

- [Is Your Company Insurance Coverage Enough](#)
- [How it helped me](#)
- [On Being Young Single and Insured](#)
- [How i helped someone](#)

Products offered by HDFC Life :

HDFC Life Click 2 Invest - ULIP

- Choose from 8 fund options [more...](#)
-

HDFC Life Click 2 Retire

- Online Unit-linked Pension Plan [more...](#)
-

HDFC Life Cancer Care

- Lumpsum benefit plan [more...](#)
-

HDFC Life Easy Health

- Fixed benefit health insurance [more...](#)
-

HDFC Life Click 2 Protect 3D Plus

- Coverage against Death, Disability and Disease [more...](#)
-

HOW CAN WE HELP YOU

HELP TO BUY ONLINE

Speak to our Certified Insurance Experts

[1800-266-9777](tel:1800-266-9777)

All days 9:00 AM to 9:00 PM IST

Email

buyonline@hdfclife.in

SMS

[SMS LIFE to 56161](tel:56161)

Instant Callback

[CLICK HERE](#)

CONTACT OUR RELATIONSHIP MANAGER

SERVICE FOR POLICYHOLDERS

NRI SERVICE

MISSED CALL SERVICE

Popular Links

- [Term insurance](#)
- [ULIP](#)
- [Pay Premium](#)
- [My Account](#)
- [Fund Performance](#)

Product Listing

- **[Protection Plans](#)**
 - [HDFC Life Click 2 Protect Plus](#)
 - [HDFC Life Click 2 Protect 3D Plus](#)
 - [Click to Protect Health- Combo Plan](#)

- **Retirement Plans**
 - [HDFC Life Click 2 Retire](#)
 - [HDFC life Pension Guaranteed Plan](#)
 - [HDFC Life Guaranteed Pension Plan](#)
 - [Hdfc Life New immediate Annuity Plan](#)
- **Savings & Investment Plans**
 - [HDFC Life Click 2 Wealth](#)
 - [HDFC Life Sanchay Par Advantage](#)
 - [HDFC SL ProGrowth Super II](#)
 - [HDFC Life ProGrowth Plus](#)
 - [HDFC Life Sanchay Plus](#)
 - [HDFC Life Super Income Plan](#)
 - [HDFC Life Sanchay](#)
 - [View All Plans](#)
- **Women and Children's Plan**
 - [HDFC Life Smart Woman](#)
 - [HDFC SL YoungStar Super Premium](#)
 - [HDFC Life YoungStar Udaan](#)
- **Health Plans**
 - [HDFC Life Cancer Care](#)
 - [HDFC Life Cardiac Care](#)
 - [HDFC Life Easy health](#)

HDFC Group Websites:

- [HDFC Health](#)
- [HDFC Ltd](#)
- [HDFC Bank](#)
- [HDFC Securities](#)
- [HDFC Mutual Fund](#)
- [HDFC Pension - Buy NPS Online](#)
- [HDFC ERGO General Insurance](#)
- [HDB financial services](#)
- [HDFC Realty](#)
- [HDFC Property Fund](#)
- [HDFC International Life and Re Company Limited](#)
- [Credila](#)
- [HDFC Sales](#)

- [Do Not Call Registration](#)
- [Disclaimer](#)
- [Privacy Policy](#)
- [Terms & Conditions](#)
- [Terminated Agent List](#)
- [IRDAI Public Notice on Spurious Calls](#)
- [Unclaimed Policy Details](#)
- [IRDAI](#)
- [Insurance Ombudsman](#)
- [IRDAI Customer Education Website](#)
- [Life Insurance Council](#)
- [Memories for Life](#)

- [QROPS](#)
- [NRI Insurance Plans](#)
- [Premium Payment](#)
- [NAV Summary](#)
- [Online Buying](#)
- [Tools & Calculators](#)
- [e-Insurance](#)
- [Public Disclosures](#)
- [Policy Loans General T&C](#)
- [FC Appointment T&C](#)
- [Sitemap](#)

Our vision is to provide innovative and customer-centric insurance plans that can help our customers secure their family's future as well as help them with other benefits such as tax savings. Keeping this in mind we offer a large range of life insurance plans such as [term insurance plan](#), [women's plan](#), [health insurance plans](#), [pension plans for retirement planning](#), [child education plans](#), [ULIPs](#), [saving and investment plans](#). Most of these life insurance policies are available online, so buy one today and Sar Utha Ke Jiyo!.

As per regulatory changes, it is mandatory to submit PAN/Form 60 (if PAN is not available) for your policy with immediate effect. Please update via My Account/service@hdfclife.com/18602679999/HDFC Life branch. Ignore if already submitted.

BEWARE OF SPURIOUS PHONE CALLS AND FICTIOUS/FRAUDULENT OFFERS

- IRDAI is not involved in activities like selling insurance policies, announcing bonus or investment of premiums. Public receiving such phone calls are requested to lodge a police complaint.