BASIS OF BANKING & INSURANCE

For B.com/BBA, Calicut University

SHORT ANSWER QUESTIONS / 2 MARK QUESTION WITH ANSWERS

1. Define customer?

A customer is a person or company who purchases goods and services. A customer becomes a consumer when he or she uses the goods or services i.e. where there is some consumption.

2. What is financial inclusion?

Financial inclusion is where individuals and businesses have access to useful and affordable financial products and services that meet their needs that are delivered in a responsible and sustainable way.

3. What is SLR?

Statutory liquidity ratio (SLR) is the Indian government term for the reserve requirement that the commercial banks in India are required to maintain in the form of cash, gold reserves, government approved securities before providing credit to the customers.

4. What is assignment of a policy?

Assignment means a complete transfer of the ownership of the policy to some other person. Usually assignment is done for the purpose of raising a loan from a bank or a financial institution.

5. What is reinsurance?

Reinsurance, also known as insurance for insurers or stop-loss insurance, is the practice of insurers transferring portions of risk portfolios to other parties by some form of agreement to reduce the likelihood of paying a large obligation resulting from an insurance claim.

6. What is micro finance?

Microfinance, also called microcredit, is a type of banking service that is provided to unemployed or low-income individuals or groups who otherwise have no other access to financial services.

7. What is current account?

Current Account is primarily meant for businessmen, firms, companies, and Public enterprises etc. that have numerous daily banking transactions. Current Accounts are meant neither for the purpose of earning interest nor for the purpose of savings but only for convenience of the business, hence are they non-interest bearing accounts.

1. *It is generally opened by trading & industrial concerns.*
2. *It is opened not for profit or savings but for convenience in payments.*
3. *Introduction is necessary to open the account.*

8. What is a scheduled bank?

Scheduled banks of India are those banks which are listed in the Second Schedule of the Reserve Bank of India (RBI) Act, 1934. Banks which are not included in this Schedule are called non-scheduled banks. Scheduled Banks include commercial banks, foreign Exchange banks, public sector banks, state co-operative banks and the regional rural banks.

9. What is fire insurance?

Fire insurance contract is defined as "an agreement, whereby one party in return for a

consideration undertakes to indemnify the other party against financial loss which the latter may sustain by reason of certainly defined subject-matter being damaged or destroyed by fire or other defined perils up to an agreed amount".

10. What is causa proxima?

This principle brings into focus the cause(s) of the loss covered by the insurance policy. Not just the loss, but how it happened is also important while deciding if compensation is due.

11. What do you mean by a secured loan?

A secured loan is a loan in which the borrower pledges some asset (e.g. a car or property) as collateral for the loan, which then becomes a secured debt owed to the creditor who gives the loan.

12. What is open market operation?

An open market operation (OMO) is an activity by a central bank to give (or take) liquidity in its currency to (or from) a bank or a group of banks. RBI uses this weapon to offset the seasonal fluctuations in money market.

13. What do you understand by variable Reserve Ratio?

Under the RBI Act of 1934, every scheduled and non- scheduled bank is required to maintain a fixed percentage of total time and demand liabilities as cash reserve with RBI. It is called statutory Cash Reserve Ratio (CRR). An increase in CRR reduces lending capacity of the bank and a decrease in CRR increases the lending capacity. RBI can prescribe a CRR ranging up to 15% which is at present 4% (as on April '2016).

14. Define insurance?

According to Gosh and Agarwal, "insurance may be defined as a co-operative form of distributing a certain risk over a group of persons who are exposed to it'

15. What is cheque truncation?

The Cheque Truncation *System or CTS is the cheque clearance system introduced by RBI to fasten up the pace of clearing of cheques. It used by Indian Banks to ensure speedy settlement of transactions in between banks.*

16. Define commercial bank?

A commercial bank *is a type of financial institution that accepts deposits, offers checking account services, and makes business, personal and mortgage loans, and offers basic financial products like certificates of deposit (CDs) and savings accounts to individuals and small businesses.*

17. What is personal accident insurance?

Personal Accident insurance or PA insurance is an annual policy which provides compensation in the event of injuries, disability or death caused solely by violent, accidental, external and visible events

18. Define wagering contract?

A contract by which a promisor agrees that upon the occurrence of an uncertain event or condition he or she will render a performance for which there is no agreed consideration exchanged, and under which the promisee or the beneficiary of the contract is not made whole for any loss caused by such occurrence (as in options, insurance contracts, trading in futures, or betting contracts).

19. What is differential rate of interest scheme?

Government of India had formulated in March, 1972 a scheme for extending financial assistance at concessional rate of interest @ 4% to selected low income groups for productive endeavors initially by public sector banks and then by private sector banks also .The scheme known as Differential Rate of Interest Scheme (DRI) is now being implemented by all Scheduled Commercial Banks.

20. What is credit creation?

Credit creation is a situation in which banks make more loans to consumers and businesses, with the result that the amount of money in circulating (being passed from one person to another) increases. In other words it refers to the unique power of the banks to multiply loans and advance and hence deposits.

21. Who is an Actuary?

An actuary *is a business professional who deals with the measurement and management of risk and uncertainty.*

22. What is Fidelity Guarantee Insurance?

Fidelity Guarantee insurance is an insurance policy designed to indemnify the Insured (the employer) for the loss of money or property sustained as a direct result of acts of fraud, theft or dishonesty by an employee in the course of employment.

23. What is meant by mixed banking?

Most banks in India play both roles. Deposit Banking and Investment Banking. Such type of banking is called mixed banking

24. What is double insurance?

Double insurance implies that subject matter is

insured in two or more insurance companies (insurers) and the total sum insured exceeds the actual value of subject matter. In other words, the same subject matter is insured in more than one insurer.

25. What do you understand by the term "banker"?

According to H. L. Hart, a banker is "one who in the ordinary course of his business honours cheques drawn upon him by person from and for whom he receives money on current accounts".

26. What is base rate?

Base rate is the minimum rate set by the Reserve Bank of India below which banks are not allowed lending to its customers.

27. Define principles of contribution?

The contribution principle in insurance is a rule that specifies what happens when a person buys insurance from multiple companies to cover the same event, and that event occurs. The principle says that if the policyholder files a claim with one company, that company is entitled to collect a proportional amount of money from the other involved insurance companies.

28. What is assurance?

Assurance refers to financial coverage that provides remuneration for an event that is certain to happen. Assurance is similar to insurance, with the terms often used interchangeably. Insurance refers to coverage over a limited time, whereas assurance applies to coverage for extended periods or until death. Assurance may also apply to validation services provided by accountants and other professionals

29. What is meant by RTGS?

It can be defined as the continuous (real-time) settlement of funds transfers individually on an order by order basis . 'Real Time' means the processing of instructions at the time they are received rather than at some later time. It is the fastest possible money transfer system in the country.

30. Who is a beneficiary?

The person or the party to whom the policy proceeds will be paid in the event of the death or happening of any contingency is called beneficiary.

31. What is credit card?

Credit card is a card issued by a financial institution giving the holder an option to borrow funds, usually at point of sale. Credit cards charge interest and are primarily used for short- term financing.

32. What is hull insurance?

Hull refers to the ocean going vessels (ships trawlers etc.) as well as its machinery. The hull insurance also covers the construction risk when the vessel is under construction. A vessel is exposed to many dangers or risks at sea during the voyage. An insurance affected to indemnify the insured for such losses is known as Hull insurance.

33. What is voyage policy?

Under the policy, the subject matter is insured against risk in respect of a particular voyage from a port of departure to the port of destination, e.g. Mumbai to New York. The risk starts from the departure of ship from the port and it ends on its arrival at the port of destination. This policy covers the subject matter irrespective of the time factor. This policy is not suitable for hull insurance as a ship usually does not operate over a particular route only. The policy is used mostly in case of cargo insurance.

34. What do you understand by insurable interest?

An insurable interest is a stake in the value of an entity or event for which an insurance policy is purchased to mitigate risk of loss. Insurable interest is a basic requirement for the issuance of an insurance policy, making it legal and valid and protecting against intentionally harmful acts. Entities not subject to financial loss from an event do not have an insurable interest and cannot purchase an insurance policy to cover that event.

35. What you meant by general utility services of a commercial bank?

A modern bank performs many general utility services for the community. The important general utility services offered by Commercial Banks are Locker facility, Issue travelers' cheques,Issue Letter of Credits, Banks act as referees and supply information about the financial standing of their customers on enquiries made by other businessmen, Banks collect information about other businessmen through the fellow bankers and supply information

to their customers, Collection of statistics, Underwriting securities, Merchant banking.

36. What is a valued policy?

Under valued policy, the value declared in the policy is the amount the insurer will have to pay to the insured in the event of a total loss irrespective of the actual value of loss. The policy violates the principle of indemnity.

37. What is mitigation of loss?

Mitigation loss is the principle that a party who has suffered loss (from a tort or breach of contract) has to take reasonable action to minimize the amount of the loss suffered.

38. What is marine insurance?

Marine insurance covers the loss or damage of ships, cargo, terminals, and any transport or cargo by which property is transferred, acquired, or held between the points of origin and final destination. Cargo insurance discussed here is a sub-branch of marine insurance, though Marine also includes Onshore and Offshore exposed property (container terminals, ports, oil platforms, pipelines); Hull; Marine Casualty; and Marine Liability

39. What do you mean by selective credit controls?

Selective credit control is a tool in the hands of Reserve Bank of India to restrict bank finance against sensitive commodities. These sensitive commodities generally include:

(i) Food grains i.e., cereals and pulses.

(ii)Cotton textiles, which include cotton yarn, man-made fibres and yarn and fabrics made out of man-made fibres and partly out of cotton yarn and partly out of man-made fibres.

(iii)Selected major oil seeds indigenously grown viz. groundnut, rapeseed/mustard, cottonseed, linseed and castor seed, oils thereof, vanaspati and all imported oils and vegetable oils.

(iv)Sugar, Gur and Khandsari.

(v)Raw cotton and kapas.