C 3460 (Pages : 2) Name..

Reg. No......................................

FOURTH SEMESTER (CBCSS—UG) DEGREE EXAMINATION
APRIL 2021

B.Com./B.B.A./B.H.A./B.T.H.M./B.C.F.D.

A 14—BANKING AND INSURANCE

Time : Two Hours and a Half Maximum : 80 Marks

Section A

Answer at least **ten** *questions.*
Each question carries 3 *marks.*
All questions can be attended.
Overall Ceiling 30.

1. Define Banking.
2. What is Micro finance institutions ?
3. What is M-banking ?
4. What is NEFT ?
5. What is bank rate ?
6. What do you mean by Credit ceiling ?
7. What is Demate banking ?
8. Define Negotiable Instrument.
9. What is Trade bill ?
10. What is Stale Cheque ?
11. What is Endorsement ?
12. Narrate ECS.
13. Define Insurance.
14. What is Reinsurance ?
15. What is Term Policy ?

(10 × 3 = 30 marks)

Turn over

Section B

Answer at least **five** *questions.*
Each question carries 6 *marks.*
All questions can be attended.
Overall Ceiling 30.

16. What are the functions of EXIM BANKS.
17. Explain Unit banking.
18. Who are the Parties to promissory notes ?
19. What are the Essentials of a Cheque ?
20. When Banker must Refuse Payment ?
21. What is Payment in due course ?
22. Explain the Basic principles of life insurance.
23. Write down the duties, powers and functions of IRDA.

(5 × 6 = 30 marks)

Section C

Answer any **two** *questions.*
Each question carries 10 *marks.*

24. Explain in detail the special types of customers.
25. Narrate the functions of RBI.
26. What is Financial Inclusion ? Explain the different types of financial inclusion Schemes in India.
27. Explain in detail the Functions of Insurance.

(2 × 10 = 20 marks)

3460

A

University of Calicut
Fourth Semester B.com/BBA/BTHM/BCFD Degree Examination
A14- BANKING AND INSURANCE

Maximum: 80 marks Time 2 1/2 Hours

Part A

(Answer all questions)

1. Banking Regulation Act of 1949 defines banking as "accepting for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise, and withdrawable by cheque, draft, order or otherwise".
2. Microfinance Institutions are Bank-like financial institutions that providing financial services, such as microcredit, micro savings or micro insurance to poor people.
3. Mobile banking is a system that allows customers of a financial institution to conduct a number of financial transactions through a mobile device such as a mobile phone or personal digital assistant.
4. National Electronic Funds Transfer (NEFT) is a nation- wide payment system facilitating one-to-one funds transfer. Under this Scheme, individuals, firms and corporate can electronically transfer funds from any bank branch to any individual, firm or corporate having an account with any other bank branch in the country participating in the Scheme.
5. Bank rate is the lending rate of central bank. It is the official minimum rate at which central bank of a country rediscounts the eligible bills of exchange of the commercial banks and other financial institutions or grants short term loans to them.
6. In this operation RBI issues prior information or direction that loans to the commercial banks will be given up to a certain limit. In this case commercial bank will be tight in advancing loans to the public. 7. It is nothing but de-materialization. This is a recent extant in the Indian banking sector. The customer who wants to invest in stock market or in share and stock needs to maintain this account with the commercial banks.
8. A negotiable instrument" means a promissory note, bill of exchange or cheque payable either to order or to bearer.
9. A bill drawn and accepted for a genuine trade transaction is termed as a trade bill.
10. A cheque, which has been in circulation for more than six months, is regarded by bankers as stale. 11. 'endorsement' means and involves the writing of something on the back of an instrument for the purpose of transferring the right, title and interest therein to some other person.
12. Electronic Clearing Service (ECS) is an electronic mode of payment / receipt for transactions that are repetitive and periodic in nature. ECS is used by institutions for making bulk payment of amounts towards distribution of dividend, interest, salary, pension, etc.,
13. "insurance may be defined as a co-operative form of distributing a certain risk over a group of persons who are exposed to it"
14. Reinsurance is a method where by the original insurer transfer all or part of risk he has assumed to another company or companies with the object of reducing his own commitment
15. In case of Term assurance plans, insurance company promises the insured for a nominal premium to pay the face value mentioned in the policy in case he is no longer alive during the term of the policy.

(15*2=30, Maximum ceiling-25 Marks)

PART B

(Answer all questions)

16.
(i) Financing of exports and imports of goods and services, not only of India but also of the third world countries;
(ii) Financing of exports and imports of machinery and equipment on lease basis; (iii) Financing of joint ventures in foreign countries;
(iv) Providing loans to Indian parties to enable them to contribute to the share capital of joint ventures in foreign

countries;
(v) to undertake limited merchant banking functions such as underwriting of stocks, shares, bonds or debentures of Indian companies engaged in export or import; and
(vi) To provide technical, administrative and financial assistance to parties in connection with export and import.

17.
This refers to that system of banking in which banking operations are carried on through a single organisation, without any branches. This system used to be popular in America. One great advantage of branch banking is that the same bank can cater to several parts of a large country (through its branches situated in those parts) which a unit bank would find difficult to do. As against this, a unit bank has the advantage that its efforts are concentrated in one area so that it can serve that area well.

18.

(a) The maker: the person who makes or executes the note promising to pay the amount stated therein.

(b) The payee: one to whom the note is payable.

(c) The holder: is either the payee or some other person to whom he may have endorsed the note.

(d) The endorser.
(e) The endorsee.

19.

(1) It is always drawn on a banker.

(2) It is always payable on demand.

(3) It does not require acceptance. There is, however, a custom among banks to mark cheques as good for purposes of clearance.

(4) A cheque can be drawn on bank where the drawer has an account.

(5) Cheques may be payable to the drawer himself. It may be made payable to bearer on demand unlike a bill or a note.

(6) The banker is liable only to the drawer. A holder -has no remedy against the banker if a cheque is dishonoured.

(7) A cheque is usually valid for fix months. However, it is not invalid if it is post dated or ante- dated.
(8) No Stamp is required to be affixed on cheques.

20.

(a) When a customer countermands payment Le., where or when a customer, after issuing a cheque issues instructions not to honour it, the banker must not pay it.

(b) When the banker receives notice of customer's death.

(c) When customer has been adjudged an insolvent.

(d) When the banker receives notice of customer's insanity.

(e) When an order (e.g., Garnishee Order) of the Court, prohibits payment.

(f) When the customer has given notice of assignment of the credit balance of his account.

(g) When the holder's title is defective and the banker comes to know of it.

(h) When the customer luis given notice for closing his account.?

21. A payment will be a payment in due course if:

(a) it is in accordance with the apparent tenor of the instrument, i.e. according to what appears on the face of the instrument to be the intention of the parties;

(b) it is made in good faith and without negligence, and under circumstances which do not afford a ground for believing that the person to whom it is made is not entitled to receive the amount;

(c) it is made to the person in possession of the instrument who is entitled as holder to receive payment;

(d) payment is made under circumstances which do not afford a reasonable ground believing that he is not entitled to receive payment of the amount mentioned in the instrument; and

(e) payment is made in money and money only.

Under Sections 10 and 128, a paying banker making payment in due course is protected.

22.

1. Insurable interest

The insured must have insurable interest in the life assured. In absence of insurable interest, Contract of insurance is void. Insurable interest must be present at the time of entering into contract with insurance company for life insurance. It is not necessary that the assured should have insurable interest at the time of maturity also.

2. Utmost good faith

The contract of life insurance is a contract of utmost good faith. The insured should be open and truthful and should not conceal any material fact in giving information to the insurance company, while entering into a contract with insurance company. Misrepresentation or concealment of any fact will entitle the insurer to repudiate the contract if he wishes to do so.

3. Not a contract of indemnity

The life insurance contract is not a contract of indemnity. A Contract of life insurance is not a contract of indemnity. The loss of life cannot be compensated and only a fixed sum of money is paid in the event of death of the insured. So, the life insurance contract is not a contract of indemnity.

23. • Registering and regulating insurance companies
- Protecting policyholders' interests
- Licensing and establishing norms for insurance intermediaries
- Promoting professional organizations in insurance
- Regulating and overseeing premium rates and terms of non-life insurance covers
- Specifying financial reporting norms of insurance companies
- Regulating investment of policyholders' funds by insurance companies
- Ensuring the maintenance of solvency margin by insurance companies
- Ensuring insurance coverage in rural areas and of vulnerable sections of society.

(8*5=40, Maximum ceiling-35 Marks)

Part C

(Answer any two questions)

24. Special Types of Customers

Special types of customers are those who are distinguished from other types of ordinary customers by some special features. Hence, they are called special types of customers. They are to be dealt with carefully while operating and opening the accounts. They are:

I. Minors:

Under the Indian law, a minor is a person who has not completed 18 years of age. The period of minority is extended to 21 years in case of guardian of this person or property is appointed by a court of law before he completes the age of 18 years. According to Indian Contract Act, a minor is recognised as a highly incompetent party to enter into legal contracts and any contract entered into with a minor is not only invalid but voidable at the option of the minor. The law has specially protected a minor merely because his mental faculty has not fully developed and as such, he is likely to commit mistakes or even blunders which will affect his interests adversely. It is for this reason; the law has come to the rescue of a minor. A banker can very well open a bank account in the name of a minor. But the banker has to be careful to ensure that he does not open a current account.

2. lunatic

A lunatic or an insane person is one who, on account of mental derangement, is incapable of understanding his interests and thereby, arriving at rational judgement. Since a lunatic does not understand what is right and what is wrong, it is quite likely that the public may exploit the weakness of a lunatic to their advantage and thus deprive him of his legitimate claims. On account of this, the Indian Contract Act recognises that a lunatic is incompetent to enter into any contract and any such contract, if entered into, is not only invalid but voidable at the option of the lunatic. Since a lunatic customer is an incompetent party, the banker has to be very careful in dealing with such customers.

3. Drunkards:

A drunkard is a person who on account of consumption of alcoholic drinks get himself intoxicated and thereby, loses the balance over his mental capacity and hence, is incapable of forming rational judgement. The law is quite considerable towards a person who is in drunken state. A lawful contract with such a person is invalid.

4. Married Women:

An account may be opened by the bank in the name of a married woman as she has the power to draw cheques and give valid discharge. At the time of opening an account in the name of a married woman, it is advisable to obtain the name and occupation of her husband and name of her employer, if any, and record the same to enable detection if the account is misused by the husband for crediting there in cheques drawn in favour of her employer.

5. Insolvents:

When a person is unable to pay his debts in full, his property in certain circumstances is taken possession of by official receiver or official assignee, under orders of the court. He realises the debtor's property and rateably distributes the proceeds amongst his creditors. Such a proceeding is called 'insolvency' and the debtor is known as an 'insolvent'.

6. Illiterate Persons:

A person is said to be illiterate when he does not know to read and write. No current account should be opened in the name of an illiterate person. However, a savings bank account may be opened in the name of such a person. On the account opening form the bank should obtain his thumb mark in the presence of two persons known to the bank and the depositor.

7. Agents:

A banker may open an account in the name of a person who is acting as an agent of another person. The account should be considered as the personal account of an agent, and the banker has no authority to question his power to deal with the funds in the account unless it becomes obvious that he is being guilty of breach of trust.

8. Joint Stock Company

A joint stock company has been defined as an artificial person, invisible, intangible and existing only in contemplation of law.

9. Partnership Firm:

A partnership is not regarded as an entity separate from the partners. The Indian Partnership Act, 1932, defines partnership as the "relation between persons who have agreed to share the profit of the business, carried on by all or any of them acting for all."

10. Joint Accounts:

When two or more persons open an account jointly, it is called a joint account.

11. Joint Hindu Family:

Joint Hindu family is an undivided Hindu family which comprises of all male members descended from a common ancestor.

12. Trustees:

According to the Indian Trusts Act, 1882, "a trust is an obligation annexed to the ownership of property and arising out of a confidence reposed in an accepted by the owner, or declared and accepted by him, for the benefit of another, or of another and the owner."

25.

Functions of RBI

RBI performs various traditional banking function as well as promotional and developmental measures to meet the dynamic requirements of the country. Main functions of RBI can be broadly classified into three. These are

I. Monetary functions or Central banking functions
II. Supervisory functions
III. Promotional and Developmental functions.

I. Monetary functions include

A. Issue of currency notes
B. Acting as banker to the Government

C. Serving as banker of other banks

D. Controlling credit

E. Controlling foreign exchange operations

A. Issue of currency notes: -

Under Section 22 of the Reserve Bank of India Act of 1934, the Reserve Bank of India is given the monopoly of note issue. Now RBI is the sole authority for the issue of currency notes of all denominations except one rupee notes and coins in the country. One rupee notes and coins are issued by Ministry of Finance of GOI. The RBI has a separate department called the Issue Department for the issue of currency notes. Since 1956 system of Note Issue changed from Proportional Reserve System to minimum reserve system.

B. Acting as Banker to government: -

The Reserve bank act as a banker to the Central and State Governments. As a banker to the Government RBI acts in three capacities, viz.. (a) as a banker,(b) as a financial agent, and (c) as a financial advisor

C. Banker's bank: -

RBI acts as banker to Scheduled banks. Scheduled Banks include commercial banks, foreign exchange banks, public sector banks, state co-operative banks and the regional rural banks. As a bankers' bank it renders the following services:

1. It holds a part of the cash balances of the commercial banks:-
2. It acts as the clearing house: -
3. It provides cheap remittance facilities to the commercial banks
4. It provides financial accommodation to the commercial banks: -

D. Control of Credit: -

RBI undertakes the responsibility of controlling credit in order to ensure internal price stability and promote sufficient credit for the economic growth of the country. Price stability is essential for economic development.

(a) Quantitative weapons

1. Bank rate policy:
2. Open Market Operations:
3. Variable Cash reserve ratio:
4. Variable Statutory Liquidity Ratio
5. Repo Rate and Reverse Repo Rate

b. Selective credit controls (Qualitative weapons)

1. Credit Ceiling
2. Credit Authorization Scheme
3. Moral Suasion
4. Regulation of margin requirements:
5. Issuing of directives:

E. Control of foreign Exchange operations

One of the central banking functions of the RBI is the control of foreign exchange operations. For the control of foreign exchange business, the RBI has set up a separate department called the Exchange Control Department in September, 1939. This Department has been granted wide powers to regulate the foreign exchange business of the country. As the central bank of India, it is the responsibility of the RBI to maintain the external value of the Indian rupee stable.

II. Supervisory functions

RBI has been given several supervisory powers over the different banking institutions in the country. The supervisory functions relate to licensing and establishment, branch expansion, liquidity of assets, amalgamation, reconstruction and liquiditation of commercial banks and co-operative banks

III. Promotional and developmental functions

a) Provision of Agricultural Credit:

b) Provision for Industrial finance: -

c.) Development of Bill Market: -

d.) Collection and publication of statistics on financial and economic matters: -

26.

Financial inclusion is the process of ensuring access to financial products and services needed by vulnerable groups at an affordable cost in a transparent manner by institutional players.

Financial Inclusion Schemes in India

The Government of India has been introducing several exclusive schemes for the purpose of financial inclusion. These schemes intend to provide social security to the less fortunate sections of the society. After a lot of planning and research by several financial experts and policymakers, the government launched schemes keeping financial inclusion in mind.

1. PMJDY - Pradhan Mantri Jan Dhan Yojana

Pradhan Mantri Jan-Dhan Yojana is a government scheme launched by the government of India to provide easy access to financial services such as Remittance, Credit, Insurance, Pension, Savings and Deposit Accounts to poor and needy section of our society.

2. APY - Atal Pension Yojana

Atal Pension Yojana scheme was launched to help poor people working in the unorganised sector to receive regular income after retirement.

3. PMVVY - Pradhan Mantri Vaya Vandana Yojana

The Indian Government launched a pension scheme and it can be taken from 4 May 2017 to 31 March 2020. In the 2018-2019 Budget Speech, the Government of India increased the maximum limit to Rs.15 lakh under the Pradhan Mantri Vaya Vandana Yojana scheme. The scheme can be bought via online and offline modes from Life Insurance Corporation (LIC) of India. The main aim of the scheme is to provide senior citizens with a regular pension during the time when there is a fall in interest rates.

4. Stand up India Loan Scheme

In India, challenges have always plagued entrepreneurs who are women or are members of the SC/ST community who are looking to obtain a loan to launch their own business venture. However, in a noble effort to not only acknowledge but also address these challenges, faced by members of the SC/ST communities and women, Prime Minister Narendra Modi launched the Stand Up India Scheme in April of 2016.

5. MUDRA Loan

MUDRA Loan is offered under the Pradhan Mantri Mudra Yojana (PMMY). MUDRA stands for Micro-Units Development and Refinance Agency. Under this scheme, borrowers can avail business loans ranging from Rs.50,000 to Rs.10 lakh on the basis of the Sishu, Kishor, and Tarun categories.

6. Jan Suraksha Schemes

It comprises of Pradhan Mantri Suraksha Bima Yojana which offer Rs. 1000 to Rs. 5000, Pradhan Mantri Jeevan Jyoti Bima Yojana offering Rs. 1 lakh to Rs. 2 lakh for accidents; and Atal Pension Yojana offering Rs.2 lakh insurance cover.

7. SSY - Sukanya Samriddhi Yojana

The Sukanya Samriddhi Yojana scheme is aimed at betterment of girl child in the country. Sukanya Samriddhi scheme has been launched to offer a means of saving to the girl child in every family. Tenure of SSY is 21 years from the date of opening of the account or till the marriage of the girl after she attains the age of 18 years

8. Jeevan Suraksha Bandhan Yojana

9. Credit Enhancement Guarantee Scheme (CEGS) for Scheduled Castes (SCs)

10. Venture Capital Fund for Scheduled Castes under the Social Sector Initiatives

11. Varishtha Pension Bima Yojana (VPBY

27.

Functions of Insurance

Insurance is defined as a co-operative device to spread the loss caused by a particular risk over a number of persons who are exposed to it and who agree to ensure themselves against that risk The functions of insurance can be studied into two parts (i) Primary Functions. and (ii) Secondary Functions.

Primary Functions:

(i) Insurance provides certainty:

Insurance provides certainty of payment at the uncertainty of loss. The uncertainty of loss can be reduced by better planning and administration. But, the insurance relieves the person from such difficult task..

(ii) Insurance provides protection:

The main function of the insurance is to provide protection against the probable chances of loss. The time and amount of loss are uncertain and at the happening of risk, the person will suffer loss in absence of insurance. The insurance guarantees the payment of loss and thus protects the assured from sufferings. The insurance cannot check the happening of risk but can provide for losses at the happening of the risk.

(iii) Risk-Sharing:

The risk is uncertain, and therefore, the loss arising from the risk is also uncertain. When risk takes place, the loss is shared by all the persons who are exposed to the risk. The risk- sharing in ancient time was done only at time of damage or death: but today, on the basis of probability of risk, the share is obtained from each and every insured in the shape of premium without which protection is not guaranteed by the insurer.

Secondary functions:

Besides the above primary functions, the insurance works for the following functions:

(i) Prevention of Loss:

The insurance joins hands with those institutions which are engaged in preventing the losses of the society because the reduction in loss causes lesser payment to the assured and so more saving is possible which will assist in reducing the premium. Lesser premium invites more business and more business cause lesser share to the assured.

(ii) It Provides Capital:

The insurance provides capital to the society. The accumulated funds are invested in productive channel. The dearth of capital of the society is minimised to a greater extent with the help of investment of insurance. The industry, the business and the individual are benefited by the investment and loans of the insurers.

(iii) It Improves Efficiency:

The insurance eliminates worries and miseries of losses at death and destruction of property. The carefree person can devote his body and soul together for better achievement. It improves not only his efficiency, but the efficiencies of the masses are also advanced.

(iv) It helps Economic Progress:

The insurance by protecting the society from huge losses of damage, destruction and death, provides an initiative to work hard for the betterment of the masses. The next factor of economic progress, the capital, is also immensely provided by the masses. The property, the valuable assets, the man, the machine and the society cannot lose much at the disaster.

(2*10=20 Marks)