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**BANKING AND INSURANCE, November 2018**

**ANSWER SCHEME**

**Section A**

*Answer any 10 questions. Each question carries 2 marks.*

1A bank is a financial institution which deals with deposits and advances and other related services. It receives money from those who want to save in the form of deposits and it lends money to those who need it. In simple words bank is a financial institution that undertakes the banking activity i.e. accepting deposits and lending the same to earn certain profit.

2. Truncated cheque is an electronic image of the cheque which is sending to the drawee bank by the drawer for clearing. It is a cheque clearing system adopted by Reserve Bank for faster clearing of cheques.It is the process of stopping the flow of physical cheque.

3. KYC means Know Your Customer. It is a process by which banks obtain information about the identity and address of the customers. KYC is an anti- money laundering measure specified in the Prevention of Money Laundering Act 2002. The KYC procedure is to be completed by the banks while opening accounts.

4Insuring the same subject matter with two different insurers is known as double insurance. In this case the same risk is insured with two independent insurance policies. Double insurance is legal in India.

5. Under this clause any loss caused by the negligence of the master of a crew member is also covered. The damage caused to the cargo in loading and unloading operations is also recoverable.

6. Core Banking is banking service provided by a group of networked bank branches where customers may access their bank account and perform basic transactions from any of their branch offices.

7. Lien is the right of the creditor to retain the assets of the debtor in his position until the demands of the creditor is satisfied. General lien confers the right to retain any properties in respect of any general balance between the two parties. It entitles a person in possession of goods to retain them until all the claims of the creditor are satisfied or paid by the debtor.

8. Garnishee order is an order issued by the court prohibiting payment out of a customer’s bank account. If a debtor fails to pay the debt owed to his creditor, the latter may apply to the court for the issue of a garnishee order, on the banker of his debtor. Such an order attaches the debt by prohibiting the creditor from recovering the debt and the debtor from making the payment thereof.

9. Bancassurance is an arrangement in which a bank and an insurance company from a partnership so that the insurance company can sell its products to the bank’s customers. In other words, we can say that Bancassurance is the provision of insurance products by a bank.

10. Ru Pay is a combination of two words- Rupee and Payment. Ru Pay debit card is an Indian version of debit card. It is launched by National Payment Corporation of India. Customers can use Ru pay cards in all ATMs and Point of sale terminals in India. A major advantage of Ru Pay debit card is its low transaction cost. The processing fee is also very less.

11. Closing of the policy before actual maturity.

12. Assignment means complete transfer of rights, title and benefits under the policy. The insured making an assignment is called the assigner and the person to whom the policy is assigned is called the assignee.

**Section B**

13. Banking Ombudsman shall have the following powers and duties:

(a) to receive complaints relating to provision of banking services;

(b) to consider such complaints and facilitate their satisfaction or settlement by agreement, through conciliation and mediation between the bank and the aggrieved parties or by passing an Award in accordance with the Scheme; and

(c) to resolve by way of arbitration such disputes between banks or between a bank and its constituents as may be agreed upon by the contesting parties in accordance with the provisions of the Scheme and the Arbitration and Conciliation Act,1996.

 OTHER POWERS AND DUTIES

(1) The Banking Ombudsman shall exercise general powers of superintendence and control over his Office and shall be responsible for the conduct of business thereat.

(2) The Banking Ombudsman shall have the power to incur expenditure on behalf of the Office. In order to exercise such power, the Banking Ombudsman will draw up an annual budget for his Office in consultation with Reserve Bank and shall exercise the powers of expenditure within the approved budget. The Reserve Bank will indicate the share of expenditure to be borne by the concerned banks.

(3) The Banking Ombudsman shall send to the Governor, Reserve Bank, by 31st May every year, a report containing a general review of the activities of his Office during the preceding financial year and shall furnish such other information as the Reserve Bank may direct.

(4) The Reserve Bank may, if it considers necessary in the public interest so to do, publish the report and the information received from the Banking Ombudsman in such consolidated form or otherwise as it deems fit.

14. Right of general lien. A general lien confers the right to retain any goods in respect of any general balance between the two parties. It entitles a person in possession of the goods to retain them until all the claims of the creditor are satisfied or paid by the debtor.

Right to set- off: A banker has the right to combine two accounts opened by the same person. Banker can adjust the debit balance in one account of the customer with the credit balance in another account of the customer.

Right of Appropriation: When the customer owes several distinct debts to a banker and makes a payment which is insufficient to discharge all his debts, a question arises to which debt the fund should be applied. If the customer has given specific directions regarding the appropriation of funds, the banker has to follow the instructions. The right of appropriation can be allied in the absence of any such direction.

Right to charge interest, commission and incidental charges: Every banker has the right to get interest for the amount due, commission for all services rendered, and incidental charges on un- remunerative accounts.

15. i. It is a more accurate, risk free, efficient and effective system of fund transfer than the traditional ones.

ii. There is no delay in settlement, thus very convenient for capital market and money market transactions.

iii. RTGS is an internationally compatible and transparent system which can be used to the full advantage of the customers.

16. A cheque is a written order of a depositor upon a bank to pay the designated party or the bearer a specified sum of money on demand. The following are the essentials of valid cheque.

1. Instrument in writing: A cheque must be necessarily in writing. It can be written in ink pen, ball pen, typed or even printed.

2. Contains an unconditional order: Cheque contains an unconditional order issued by the customer to his bank. It does not contain a request for payment. The order must be unconditional.

3. Drawn on a specified banker: A cheque must be drawn on a particular banker only. Generally, the full name and address of the bank is printed on the cheque.

4. Signed by the customer: A cheque must be signed by the account holder.

5. Payee must be certain: The payee to whom the payment is to be made should be certain. The name of the payee must be written on the cheque or it can be made payable to the bearer.

5. Must contain date: State the date month and year.

17. When an amount is deposited with the banker, the banker becomes debtor and customer becomes the creditor. The banker has to return the money of the customer on demand.

In case of loan or overdraft, the customer becomes the debtor and banker becomes the creditor.

18. Types of Cheques includes: Bearer Cheques and Order Cheques, Gift Cheques, Stale Cheque, Ante-Dated Cheque, Post Dated Cheque, Mutilated Cheque.

19. Group Insurance is an insurance policy where a large number of persons belonging to an identifiable group like employees in an organization, members of a club or association are covered under one insurance. Benefits to employees:

* Low Cost of policy as compared to individual insurance policy
* Beneficial to employees who are unable to obtain an individual policy at high cost
* Avail benefits of tax deductions

Benefits to Employer

* Increases retention ratio, productivity and morale
* Promotes public image of an organization

20. Essentials of Fire Insurance are:

* Principle of insurable interest, indemnity, utmost good faith, subrogation and contribution is applicable
* Personal in nature
* Assignment is possible
* Covers fire losses in whole
* Cause of fire is immaterial
* Period does not exceed one year
* Loss occurs due to deliberate act is not covered

21. Pradhan Mantri Jan-Dhan Yojana

It’s a nation wide scheme launched by central government on 28th August 2014. Financial inclusion of individuals without bank account is to be included. Ensures financial access to all individuals who are not getting benefits of any government schemes. Indian citizens who is in the age of 18 years, who doesnot have a bank account can open an account with zero balance. OD facility of 5000 for adhar linked accounts.

**(6 X 5 = 30 marks)**

**Section C**

*Answer any 2 questions. It carries 15 marks.*

22. Basel Norms are set of norms for banks aimed at mitigating risk, and strengthening the capital structure of banks of member countries. Basel is a city in Switzerland. It is the headquarters of Bureau of International Settlement (BIS), which fosters co-operation among central banks with a common goal of financial stability and common standards of banking regulations. Every two months BIS hosts a meeting of the governor and senior officials of central banks of member countries. Currently there are 27 member nations in the committee. Basel guidelines refer to broad supervisory standards formulated by this group of central banks - called the Basel Committee on Banking Supervision (BCBS). The set of agreement by the BCBS, which mainly focuses on risks to banks and the financial system are called Basel accord.

Three Types: Basel I, Basel II and Basel III.

23.

* Utmost Good Faith
* Insurable Interest
* Proximate Cause
* Indemnity
* Subrogation
* Contribution
* Loss Minimization

24. Cheque is a bill of exchange drawn on a specified banker, and not expressed to be payable otherwise than on demand and it includes, the electronic image of truncated cheque and a cheque in the electronic form.

Types of Cheques includes: Bearer Cheques and Order Cheques, Gift Cheques, Stale Cheque, Ante-Dated Cheque, Post Dated Cheque, Mutilated Cheque.

25. Online banking, also known as internet banking, is an electronic payment system that enables customers of a bank or other financial institution to conduct a range of financial transactions through the financial institution's website. The online banking system will typically connect to or be part of the core banking system operated by a bank and is in contrast to branch banking which was the traditional way customers accessed banking services.

**Advantages:**

* Convenience
* Reduced Cost
* Accuracy
* Healthy Competition
* Time Saving

Limitations

* Start up problem
* Learning Problem
* Availability of internet
* Bank site changes
* Relationships
* Security
* Technical problems.