



# **TECHNOCRATS INSTITUTE OF TECHNOLOGY-MBA**

By AICTE New Delhi & Govt. of Madhya Pradesh  
Affiliated To Barkatullah University, Bhopal  
Anand Nagar, P.B. No. 24, Post Piplani, BHEL, Bhopal-462021  
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## **SUGGESTED READING BOOKS:**

1. Iyenger, V., Introduction to Banking, Excel Book Publication, New Delhi.
2. Gulathi, N.C., Principles of Insurance Management, Excel Books Publication, New Delhi.
3. Vaughan, Fundamentals of Risk and Insurance, Wiley India Pvt. Ltd..
4. Skipper & Kwon, Risk Management and Insurance Perspectives in Global Economy, Wiley India Pvt.



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Ltd.

5. Gurusamy, Banking Theory law & Practice Tata McGraw-Hill Publishing Company Limited.
6. Life Insurance: Principles & Practice, Publisher Excel Books Publication.
7. General Insurance: Principles & Practice, Publisher Excel Books Publication.

## **MANAGEMENT OF BANKING AND INSURANCE INSTITUTIONS**

### **UNIT 1: Commercial Banking, Banking Operations, Regulatory and Legal Framework**

#### **1.1 Commercial Banking: Definition and Scope**

Commercial banks are financial institutions that accept deposits from the public and provide loans for consumption and investment. They are the backbone of the financial system and play a crucial role in economic development.

#### **Functions of Commercial Banks**

- **Accepting Deposits:** Savings, current, fixed, recurring deposits.
- **Lending Money:** Loans, overdrafts, cash credit, bill discounting.
- **Payment and Settlement:** Cheques, drafts, NEFT, RTGS, UPI.
- **Agency Services:** Collection of bills, dividends, insurance premium payments.
- **General Utility Services:** Locker facilities, ATM services, foreign exchange.

#### **Types of Commercial Banks**

- **Public Sector Banks:** Owned by the government (e.g., SBI, Bank of Baroda).
- **Private Sector Banks:** Owned by private entities (e.g., ICICI, HDFC).
- **Foreign Banks:** Operate in India but headquartered abroad (e.g., Citibank).
- **Regional Rural Banks (RRBs):** Serve rural areas with agricultural credit.
- **Cooperative Banks:** Operate on cooperative principles, catering to local needs.

#### **1.2 Banking Operations**

Banking operations refer to the day-to-day activities involved in managing financial transactions and customer services.



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### **Core Banking Operations**

- **Account Management:** Opening, maintaining, and closing accounts.
- **Cash Operations:** Deposits, withdrawals, cash handling.
- **Loan Processing:** Credit appraisal, sanctioning, disbursement.
- **Clearing and Settlement:** Cheque clearing, ECS, IMPS.
- **Customer Service:** Grievance redressal, KYC compliance.

### **Technology in Banking**

- **Core Banking Solutions (CBS):** Centralized database for real-time transactions.
- **Digital Banking:** Mobile apps, internet banking, chatbots.
- **Cybersecurity:** Protecting customer data and transactions.

### **1.3 Regulatory and Legal Framework**

The banking sector in India is governed by a robust legal and regulatory framework to ensure stability and transparency.

#### **Key Regulatory Bodies**

- **Reserve Bank of India (RBI):** Central bank, regulates monetary policy and banking operations.
- **Securities and Exchange Board of India (SEBI):** Regulates capital markets.
- **Ministry of Finance:** Oversees fiscal policy and banking reforms.

#### **Important Banking Laws**

- **Banking Regulation Act, 1949:** Governs licensing, operations, and management of banks.
- **RBI Act, 1934:** Empowers RBI to regulate currency and credit.
- **Negotiable Instruments Act, 1881:** Governs cheques, promissory notes, bills of exchange.
- **SARFAESI Act, 2002:** Enables banks to recover NPAs without court intervention.
- **Companies Act, 2013:** Applicable to corporate banking clients.

### **1.4 Other Lending Institutions**

Besides commercial banks, several institutions provide credit and financial services.

#### **Development Financial Institutions (DFIs)**

- **NABARD:** Agricultural and rural development financing.



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- **SIDBI:** Small industries development.
- **EXIM Bank:** Export-import financing.

### **Non-Banking Financial Companies (NBFCs)**

- Provide loans, leasing, hire purchase, but do not accept demand deposits.

### **Microfinance Institutions**

- Offer small loans to low-income groups, especially in rural areas.

## **1.5 Banker-Customer Legal Relationship**

The relationship between a banker and customer is contractual and governed by legal principles.

### **Types of Relationships**

- **Debtor-Creditor:** Bank is debtor when accepting deposits; creditor when lending.
- **Agent-Principal:** Bank acts as agent for collection and payments.
- **Trustee-Beneficiary:** Bank holds assets in trust for customers.

### **Duties of Banker**

- Maintain confidentiality.
- Honor cheques if funds are available.
- Provide accurate account statements.
- Exercise due diligence in lending.

### **Duties of Customer**

- Provide accurate information.
- Maintain sufficient balance.
- Abide by bank's terms and conditions.

## **1.6 Mutual Rights and Duties with Special Categories of Customers**

<b>Category</b>	<b>Legal Considerations</b>
<b>Corporations</b>	Board resolution required; authorized signatories must be specified.
<b>Partnership Firms</b>	All partners are jointly liable; mandate required for account operation.



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Category	Legal Considerations
Hindu Joint Families	Karta operates account; other members are coparceners.
Unincorporated Bodies	Limited liability; special documentation required.
Trusts	Trustee operates account; fiduciary responsibility applies.
Joint Account Holders	Joint mandate; survivorship clause determines post-death operation.
Minors	Guardian operates account; no overdraft or credit facilities allowed.
Nominee Accounts	Nominee receives funds post-death; no ownership during lifetime.

## **UNIT 2: Risk Management, NPA Management, ALM, Loan Terminology**

### **2.1 Marketing and Distribution Channels**

Banks use multiple channels to reach customers and distribute products.

#### **Direct Channels**

- Branch banking
- ATMs
- Mobile and internet banking

#### **Indirect Channels**

- Business correspondents
- Third-party agents
- Fintech partnerships

#### **Digital Transformation**

- UPI, NEFT, RTGS
- Chatbots and AI-based customer service
- E-KYC and biometric authentication

### **2.2 Risk Management in Banking**

Risk management is essential to safeguard the bank's assets and ensure financial stability.

#### **Types of Risks**



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- **Credit Risk:** Default by borrower.
- **Market Risk:** Loss due to market fluctuations.
- **Operational Risk:** Internal failures, frauds.
- **Liquidity Risk:** Inability to meet short-term obligations.
- **Interest Rate Risk:** Adverse movement in interest rates.

### **Risk Mitigation Tools**

- Credit appraisal systems
- Internal audit and compliance
- Basel III norms
- Risk-weighted asset calculation
- Stress testing and scenario analysis

### **2.3 NPA (Non-Performing Assets) Management**

NPAs are loans where the borrower has failed to make scheduled payments.

#### **Classification of NPAs**

- **Substandard Assets:** NPA for <12 months.
- **Doubtful Assets:** NPA for >12 months.
- **Loss Assets:** Identified as non-recoverable.

#### **Causes of NPAs**

- Poor credit appraisal
- Economic downturn
- Willful default
- Project delays

#### **Recovery Mechanisms**

- **SARFAESI Act:** Asset seizure without court intervention.
- **Debt Recovery Tribunals (DRTs)**
- **Lok Adalats:** Alternative dispute resolution.
- **Asset Reconstruction Companies (ARCs)**



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### **2.4 Asset Liability Management (ALM)**

ALM is the process of managing the bank's assets and liabilities to minimize risks.

#### **Objectives of ALM**

- Maintain liquidity
- Manage interest rate risk
- Ensure profitability

#### **ALM Techniques**

- **Gap Analysis:** Matching maturities of assets and liabilities.
- **Duration Analysis:** Sensitivity of assets/liabilities to interest rate changes.
- **Liquidity Coverage Ratio (LCR):** Ensures sufficient liquid assets.
- **Net Stable Funding Ratio (NSFR):** Long-term stability of funding.

### **2.5 Managing Credit, Liquidity & Interest Rate Risk**

#### **Credit Risk Management**

- Credit scoring models
- Collateral and guarantees
- Monitoring and review systems

#### **Liquidity Risk Management**

- Cash flow forecasting
- Maintaining CRR and SLR
- Access to interbank markets

#### **Interest Rate Risk Management**

- Duration matching
- Use of interest rate swaps
- Floating vs fixed rate instruments

### **2.6 Loan Sales and Securitization**





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Loan sales and securitization help banks manage risk and improve liquidity.

### **Loan Sales**

- Selling loan portfolios to other institutions
- Offloading risky or non-core assets

### **Securitization**

- Pooling loans and issuing securities backed by them
- Common in housing finance and auto loans

### **Benefits**

- Risk transfer
- Improved capital adequacy
- Enhanced liquidity

## **2.7 Basic Loan Terminology**

<b>Term</b>	<b>Definition</b>
<b>Debtor</b>	Person who owes money to another party.
<b>Creditor</b>	Person to whom money is owed.
<b>Pledger</b>	Person who pledges movable property as security.
<b>Pledgee</b>	Person who receives the pledged property.
<b>Hypothecator</b>	Person who hypothecates movable assets without transferring possession.
<b>Hypothecate</b>	Asset used as security under hypothecation.
<b>Mortgagor</b>	