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MARKETS

FINANCIAL MARKET AND THE SUB-MARKETS

Financial Markets include any **place or system that provides buyers and sellers the means to trade financial instruments, including bonds, equities, the various international currencies, and derivatives.**

Financial markets facilitate **the interaction between those who need capital with those who have capital to invest**

Types of Financial Markets:-

- Money market
- Capital market.

The money market is a market for short-term financial assets that are close substitutes of money. **Borrowers and lenders exchange short-term funds to solve their liquidity needs.**

- The most important feature of a money market instrument is that **it is liquid and has a low default risk**.

The Capital market is a market for financial investments that are direct or indirect claims to capital. The Capital Market encompasses the process by which the securities, which have already been issued are transferred.

- The Capital Market has two interdependent and inseparable segments,

- Primary market and
- Secondary market.

- The Primary market provides the channel **for sale of new securities.** The issuer of securities sells the securities **in the primary market to raise funds for investment and/or to discharge some obligations**.

- The Secondary market **deals in securities issued earlier**. The secondary market enables **those who hold securities to sell their holdings and or purchase the required securities in response to changes in their assessment of risk and return.**

- Sub markets in the Indian financial markets **where funds are raised either for short term or long-term requirements**. The different financial sub-markets are:
- Money Market
- Debt Market
- Foreign Exchange Market
- Capital Market
- Mutual Funds
- Insurance Market

MONEY MARKET

Indian Money Market

- Indian Money Market is made up of both organised and unorganised segments.
- The Indian Money Market has undergone rapid changes in recent times. Financial reforms in **India began in the early 1990s**.
- Beginning in the 1990s, various segments of domestic financial markets, **including the money market, debt market, and forex market, experienced significant shifts**.
- Previously, the Indian money market was characterised by a **scarcity of instruments, a lack of depth, and market microstructure distortions.**
- It mainly consisted of uncollateralised call market, treasury bills, commercial bills and participation certificates.
- Following the recommendations of the Chakravarty Committee (1985), **the Reserve Bank adopted a monetary targeting framework**. At the same time, efforts were made **to develop the money market following the recommendations of** Vaghul Committee (1987). In this regard, the important developments were as under:

a) **Setting up of the Discount and Finance House of India (DFHI)** in 1988 to impart liquidity to money market instruments and to help the development of secondary markets in such instruments;

b) Introduction of instruments such **as certificate of deposits (CDs) in 1989 and commercial papers (CPs) in 1990** and inter-bank participation certificates with and without risk sharing in 1988 to increase the range of instruments; and

c) **Freeing of call money rates by May 1989 to enable price discovery**

- Further, following the recommendations of an Internal Working Group (1997) and the Narasimhan Committee (1998), a comprehensive set of measures was undertaken by the Reserve Bank to develop the money market. These included:

  a) withdrawal of interest rate ceilings in the money market;
  b) introduction of auctions in treasury bills;
  gradual move away from the cash credit system to a loan-based system.

PARTICIPANTS IN THE MONEY MARKET

The scheduled commercial banks (excluding RRBs), **the co-operative banks** (other than Land Development Banks) and **the Primary Dealers** (PDs) are permitted to participate in call/notice money market both as borrowers and lenders.

a) Banks (SCB) Excluding RRBs

- They play a pivotal role in the money market, since th**ey can act both as a lender and borrower in the money market.**
- Besides, they can act as a major connecting link between the RBI and the various segments of the money market,
- So that RBI can intervene at any time for controlling the liquidity and ensure implementation of its monetary policies.

b) Discount and Finance House of India Limited (DFHI)/SBI DFHI Limited

- RBI set up the DFHI jointly with public sector banks and the all-India financial institutions.
- The main objective of this money market institution was to facilitate **smoothening of the short-term liquidity imbalances by developing an active secondary market for the money market instruments**.
- In 2004, amalgamation of DFHI Limited and SBI Gilts Limited took place and a new entity BI DFHI Limited was created.

c) Public Sector Undertakings

- Public Sector Undertakings (PSUs) issue **bonds to finance their working capital requirements and long-term fund requirements** for capital expenditure.
- PSUs also invest in Certificates of Deposit and Treasury bills and are active players in money market.

d) Public Financial Institutions

- Unit Trust of India **(UTI),** Life Insurance Corporation Of India, General Insurance Companies and their subsidiaries, Export Credit and Guarantee Corporation **(ECGC)** and National Bank for Agricultural and Rural Development **(NABARD)** are the other institutions which are also important players in the money market.
- The participation by these institutional players has **increased the number of participants and has also provided depth to the money market,** which is essential for the growth and development of the economy.

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e) Money Market Mutual Funds

- Money market mutual funds are relatively new type of mutual funds. A money market mutual fund invests solely in money market instruments.
- Money market instruments **are forms of debt that mature in less than one year and are very liquid.**
- Treasury bills make up the bulk of the money market instruments. Securities in the money market are relatively risk-free.
- Money market funds are **generally the safe and Most secure of mutual fund investments.** The goal of a money-market fund to preserve principal while yielding a modest return.

f) Non-Banking Finance Companies

Non-Banking Finance Companies invest their **surplus funds in money market and debt instruments**. As part of regulatory requirements, NBCs are required to invest in bonds.

g) Financial Subsidiaries and Mutual Funds

Most of the commercial banks have **floated their own subsidiaries for merchant banking activities to deal in money market instruments.**

h) Primary Dealers (PDs)

- Reserve Bank of India conceived the **organization of Primary Dealer in 1995 and permitted them to participate in the money market**.
- The objectives of the PD system are to strengthen the infrastructure in **G-Sec market, development of underwriting and market making capabilities for G-Secs, improve secondary market trading system and to make PDs an effective conduit for open market operations (OMO).**

- As on 1" July 2016, there are seven standalone PDs and fourteen banks authorised to undertake the PD business departmentally.

i) Private Sector Companies (Corporates)

- Corporate entities are important players in the money market.
- They invest in Certificate of Deposits (CDs) and issue Commercial Papers (CPs), Debentures (fully or partially convertible into shares of the company).
- Some large corporate house with strong treasury support are also players in the money market in G-sec and other debt instruments.

j) Other Institutions:

- The different rating agencies that rate the short-term money market instruments are **not direct participants but are a necessary and integral part of money market.**
- The following credit rating agencies, accredited by SEBI/RBI are presently provide the credit rating certificates:
- CRISIL Ltd
- Fitch Ratings India Private Ltd.
- Credit Analysis & Research Ltd. (CARE)
- ICRA Ltd
- Brickwork Ratings India Private Limited
- SME Rating Agency of India Ltd. (SMERA)

MONEY MARKET INSTRUMENTS

Common Characteristics:

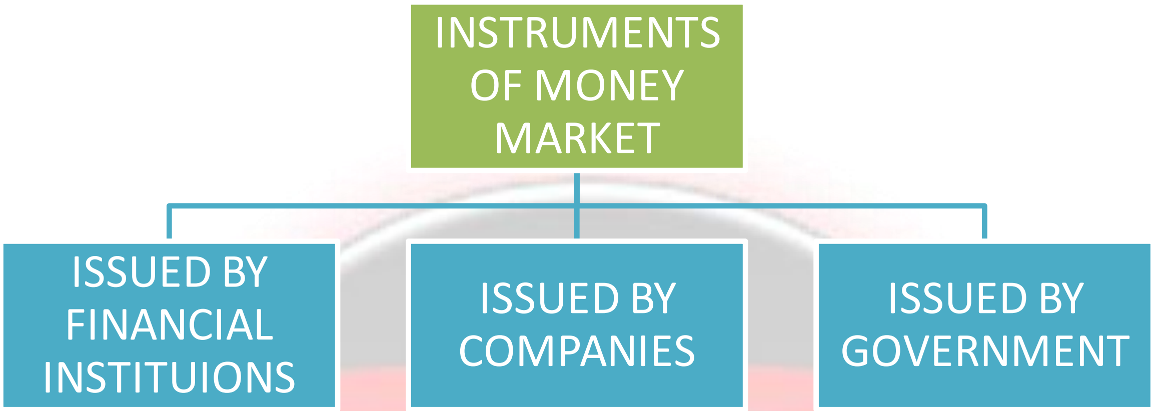
Duration: They are of shorter duration ranging from 1 day to 364 days in general

High Liquidity: The instruments are highly liquid and can be converted to cash at low costs.

High Safety: These instruments are considered to be highly safe with a low risk of default on account of financial soundness of the issuers like Government of India (T-bills), SCBs (for CDs) and highly rated corporates (CPs).

Deregulated Interest Rates: The rates of interest are market driven and deregulated.

Restricted Access: Besides RBI, the dealing is restricted to SCBs, NBCs, public finance institutions, other large corporates and other players as discussed above.



ISSUED BY FINANCIAL INSTITUIONS

a) Call Money

Call Money is the borrowing or lending of **funds for 1 day by Banks.**

b) Notice Money

Notice Money is the borrowing or lending of funds for period between **2 days and 14 days Banks.**

c) Term Money

Term money refers to borrowing/lending of funds for a period **exceeding 14 days and up to one year by banks**.

d) Repo

A Repo rate is a rate at which commercial banks **borrow money by selling their securities** to the RBI to maintain liquidity.

e) Certificates Of Deposit

- Certificate of deposit is a **negotiable money market** instrument issued in **dematerialised form**.
- It issued by scheduled commercial banks, Regional Rural Banks Small Finance Banks and all-India Financial Institutions that have been permitted by RBI.
- CDs are issued at a **discounted price and redeemed at par value**.
- **Tenor** of issue can range from **7 days to 1 year.**

ISSUED BY GOVERNMENT

a) Treasury Bills

- Treasury bills (T Bills) are money market instruments issued by **Government of India**.
- Three types of T bills are issued, namely **91-day, 182-day and 364-day.**
- Treasury bills are issued at a **discounted price and redeemed at par value.**

ISSUED BY COMPANIES

a) Commercial Paper

- It was introduced in India in 1990
- Commercial Paper (CP) is an **unsecured money market** instrument
- It usually has a maturity period **15 days to one year**.
- It is issued at a **discounted price and redeemed at par value.**

Eligibility for Issue of CP

- Any other body corporate with a minimum **net worth of 100 crore** or higher.
- Any other entity specifically **permitted by the Reserve Bank**
- **Co-operative societies/unions and limited liability partnerships** with a minimum net worth of 100 crore or higher

b) Repo

- It is a **repurchase agreement** for borrowing and lending of funds, on a collateralised basis.
- A repo involves selling of a security, with an **agreement to repurchase the same,** at a future date, at a predetermined price.
- The seller of the security receives funds, while the buyer of the security receives collateral for the funds that has been lent.

TRI-PARTY REPO

A Tri-party repo is a type of repo contract, where a third entity called a Tri-Party Agent, acts as an intermediary between the two parties to the repo contract

c) Bill Rediscounting Scheme (BRDS)

BRDS is the rediscounting of trade bills, which have already been purchased by/discounted with the bank by the customers. These trade bills arise out of supply of goods/services.

HOW TRADES ARE CONDUCTED

- The trades are conducted on the NDS Call system, which is an electronic screen-based system set up by the RBI.
- The settlement of money market deals is by electronic funds transfer, using the Real Time Gross Settlement (RTGS) system.

d) Cash Management Bills (CMBS)

- Cash Management Bill (CMB) is a short-term financial instrument issued to meet the **temporary mismatch in the cash flow** of the government.
- CMBs were **first issued in 2010** and They are issued for **less than 91 days**.

Inter Bank Participation Certificates (IBPCs)

Interbank participation certificates are short term debt instruments whereby a bank or a financial institution, which is the lender of funds, purchases a part of loan portfolio (advances of a particular client or an aggregate of clients) for a temporary period. IBPCs are of two types:

- With risk sharing
- Without risk sharing

Only Scheduled commercial Banks (SCBs) can issue IBPCs. The important features are as under:

- Minimum period shall be 90 days for IBPCs under non-risk sharing basis and in case of risk sharing basis**, it can be between 91 days to 180 days.**
- Participation should be only for standard assets and would be restricted to **40% of the outstanding or the limit sanctioned which is lower.**

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- Interest rates are determined between issuing bank and the participating bank and are market driven.
- IBPCs are not transferable.

DIFFERENT TYPES OF INTEREST RATE QUOTATIONS

The different ways for calculating the interest amount on these money market instruments/debt instruments are:

- Fixed Rate of Interest
- Floating Rate of Interest
- Yield
- Count Conventions
- Premium & Discount

DEBT MARKET

Debt market is the market meant for issuing, trading (buying and selling) of fixed income instruments. It is also referred as Bond Market.

- Fixed income securities are securities issued by Central and State Governments, Govt. bodies and commercial entities **like Financial Institutions, Municipal Corporations, Banks, Public Sector Undertakings (PSUs), Public Limited Companies (Corporates) and includes structured finance instruments.**
- When the participants in the **Debt market issue new debt securities,** the transactions are known as transactions in the primary market.

- When the participants **buy and sell debt instruments, which have already been issued the market** is called the secondary market.
- Debt instruments typically **have maturities of more than one year.**
- Long-term debt is important for funding **infrastructure projects or other long term capital expenditure, both public and private**.

The major participants in the Indian debt market

Banks: Banks are the largest investors in debt market, particularly the treasury bonds.
They invest in central government and state govt. securities to maintain their SLR.
They are also arrangers of commercial paper issues of corporates and also issue CDs and bonds in the debt market.

Public Sector Undertakings (PSUs) are large issuers of debt securities for raising resources for their long-term funding requirements. They are also investors in the bond issues in debt market.

Mutual funds: They are one of the major players now in the debt market. They participate as investors as well as trade in the secondary market.

Corporates: They issue securities/papers to raise funds for their long-term requirements. They are also investors in the debt securities issued.

Provident funds: They are one of the largest investors in the bond market since they are mandated to put a sizeable chunk of their

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portfolio/investments in G-Secs, SDLs and PSU bonds.

Foreign Institutional Investors (FIIs): They are permitted to invest in debt market in dated government securities and treasury bills within certain limits.

Public Sector Financial Institutions: They invest in bonds issued by other entities as well as access the market for funding their requirements.

Central Government and State Governments: They raise money by issuing bonds for plugging their budgetary deficit and to meet their short- and long-term funding requirements.

Charitable Institutions, Trusts and Societies also invest in the debt market in accordance with their byelaws etc.

Types of Instruments in Debt Market

- Non-Convertible Debentures
- Partly Convertible Debentures/Fully Convertible Debentures (convertible into Equity Shares)
- Debentures with Warrants
- Deep Discount Bonds
- Separate Trading of Registered Interest and Principal of Securities (STRIPS)
- PSU Bonds/Tax-Free Bonds
- Debentures

Debentures are transferable but non-negotiable instruments. A debenture is issued both in physical as well as demat form.

- It is less liquid as compared to PSU Bonds, liquidity being inversely proportional to the residual maturity.
- Debentures can be classified into various categories on the basis of the convertibility clause of the instrument. They are as under:

a) **Non-Convertible Debentures (NCD) :** These instruments retain their **debt character during the tenure of the instrument and cannot be converted to equity**.

NCDs shall not be issued for maturities of less than 90 days or beyond the validity period of the credit rating of instrument from the date of issue.

b) **Fully convertible Debentures (FCD) :** These instruments are **fully convertible into Equity shares at the issuer's notice and the ratio of conversion is decided by the issuer**. On conversion, the investors enjoy the status of shareholders of the company.

c) **Optionally convertible Debentures** :In case of these instruments, the **investor has the option to convert these debentures into shares at prices decided by the issuer as agreed at the time of issue**.

d) **Partly convertible Debentures (PCD):** A part of these instruments are converted into equity in the future by the notice of the issuer. At the time of initial subscription, the conversion ratio is decided.

Deep Discount Bond

Deep Discount Bond is technically called **a Zero-Coupon Bond**. This means the deposit does not give any interest pay-outs.
Hence the term zero-coupon bond, **instead the interest is accumulated and paid out at the time of maturity.**

Tax Free Bonds :

- The income by way of interest on these Bonds is **fully exempt from Income Tax** and shall not form part of Total Income as per provisions under section 10(15) (iv) (h) of I.T. Act, 1961.
- These bonds are generally issued by Government Backed entities and thus have very low default risk.
- The tenure of the bonds is usually 10/15 or even 20 years. They are also listed on stock exchanges to offer an exit route to investors.
- The bonds are **tax-free, secured, redeemable and non-convertible in nature.**

Debt Market and some related terms

a) Auction of Securities: Auction is a process of calling bids for the price discovery of an instrument/security in the market place. Auction can be price based or yield based.

b) Coupon: The coupon rate is the interest rate that every bond or debenture carries on its face value and is fixed at the time of issuance. For example a 12% coupon rate on a bond/debenture of face value © 100 implies that the invest will receive interest at 12% p.a. Coupon may be payable monthly, quarter half-yearly or annually or cumulative on redemption.

c) Maturity date of security: Securities are issued for a fixed period of time at the end of which the principal amount borrowed is repaid to the investors. The date on which the term ends and proceeds are paid out is known as the Maturity Date.

d) Redemption of Bond/Security: On reaching the date of maturity, the issuer repays the money borrowed from the investors. This is known as Redemption or repayment of the bond/debenture

FOREIGN EXCHANGE MARKET

The Foreign Exchange Management Act, 1999 (Act No. 42 of 1999) as enacted by the Parliament defines Foreign Exchange as per section 2(n) as follows:

a) Foreign Exchange **means foreign currency** and includes:
b) Deposits, credits and balances **payable in foreign currency**.
c) Drafts, travellers cheque, letters of credit or bills of exchange, **expressed or drawn in Indian currency but payable in any foreign currency.**
d) Drafts, travellers cheques, letters of credit or bills of exchange **drawn by banks, institutions, or persons outside India but payable in Indian currency.**

Participants of Foreign Exchange Market (Forex Market)

a) Central Banks: They constantly monitor the market and help in stabilising the exchange rates by intervening whenever required.

b) Commercial Banks: They operate in the forex market offering exchange of currencies as per requirement of their clients both wholesale and retail. They also invest and hedge their forex exposure subject to regulatory guidelines.

c) Investment funds: This category includes commercial and investment banks, multinational companies, large corporates and hedge funds that buy and sell currencies with a view to earn profits due to movement in the exchange rates.

Exchange Rates - Factors influencing them

a) Demand and Supply: **The currency gets strengthened if it is in surplus and gets weakened when there is a demand for the currency and it is short in supply.**

b) Balance of trade: Trade surplus or deficit of a particular currency influences exchange rate of the currency of the concerned country.

c) Interest rate differential: A high domestic interest rate is an attraction for overseas capital/investments and helps in strengthening the currency in the short term. However, flight of capital may adversely affect the exchange rates.

d) Political and economic policies of the Government: The monetary and economic policies of the Government/Central Bank and the stability of the party at power plays an important role in fixing the exchange rates. **Unstable government or wrong economic policies may send wrong signals, thus affecting adversely the currency of the country and the exchange rates.**

e) Events like war or any crisis in the globe: Besides any economic crisis in any developed economies of the world will impact the exchange rates on account of globalisation.

- Speculative forces can have an impact on the exchange rates.
- Relative strengths of the economies for a given pair of currencies.
- A host of economic factors like Gross National Product, Fiscal Deficit, Balance of Payment, Industrial Production data, Employment data etc.
- Inflation rate differentials.

TYPES OF FORIEGN EXCHANGE MARKET

a) Spot Market

- This foreign exchange market provides **immediate payment to the buyers and the sellers** as per the current exchange rate.
- Trades usually take **one or two days to settle the transactions.**

b) Forward Market

In this type of market, there is an **agreement to do a trade at some future date, at a defined price and quantity.**

c) Future Markets

The future markets come with solutions to a **number of problems that are being encountered in the forward markets**. Future markets work on similar lines and basic philosophy as the forward markets.

d) Option Market

An option is a contract that allows an **investor to buy or sell an instrument at a determined price over a definite period of time**.

FOREIGN EXCHANGE MANAGEMENT ACT (FEMA), 1999

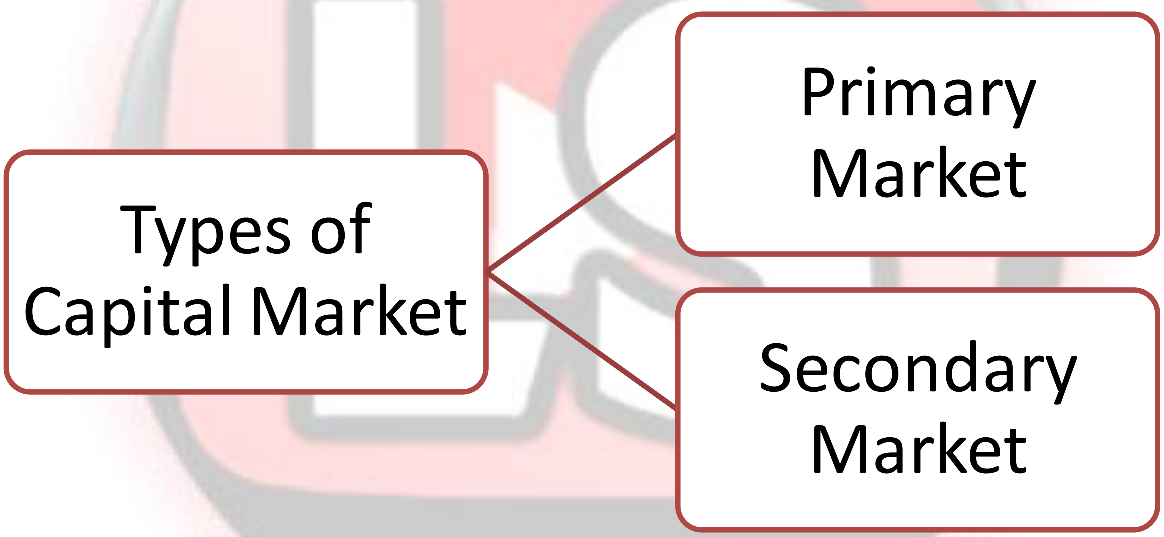
It is a set of regulations that empowers the **Reserve Bank of India and Government of India to pass rules and regulations relating to foreign exchange** in tune with the foreign trade policy of India.

Features of FEMA

- FEMA was introduced in **1999** and replaced an earlier **act FERA 1973.**
- This Act was passed by the government to **promote overseas trade and external payments in India.**
- FEMA Was introduced to **manage foreign exchange market Instead of regulating.**
- FEMA is applicable to the **whole of India**
- The Act also applies to **all branches, offices and agencies outside India** owned or controlled by a person resident in India.

CAPITAL MARKET

- Capital market is a financial market in which **long-term debt or equity-backed securities are bought and sold.**
- The main instruments traded in the capital market are – **equity shares, debentures, bonds, preference shares etc.**
- **SEBI is the regulator** of the Capital Market.



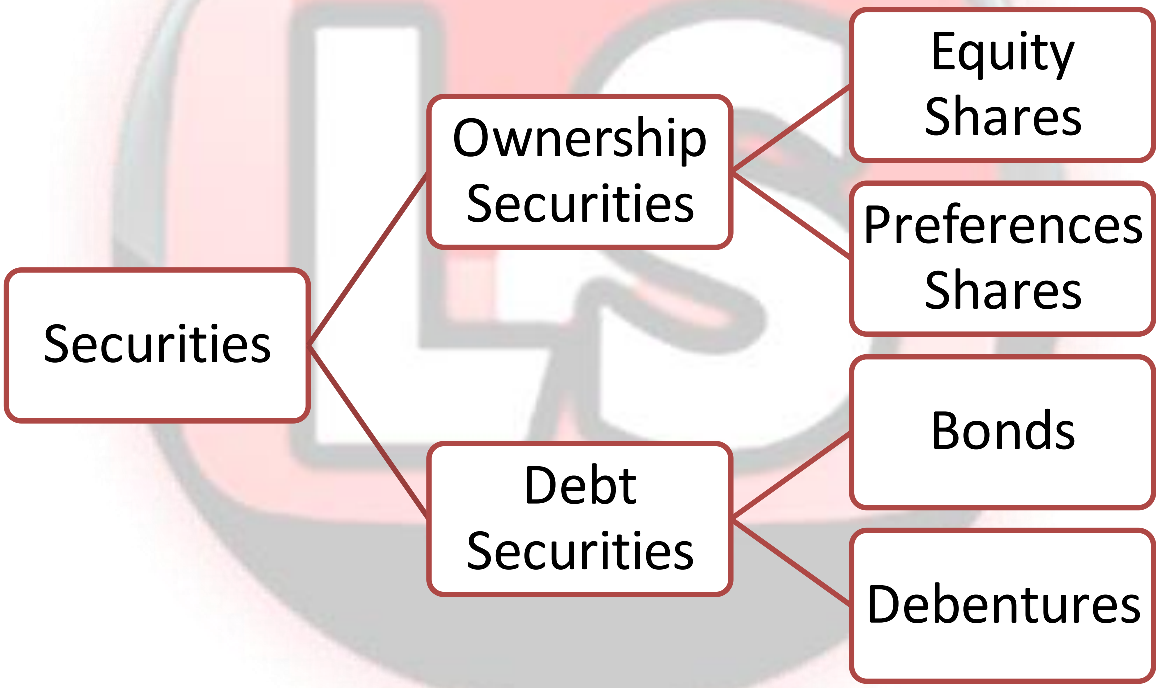
PRIMARY MARKET

- In a primary market, **securities are issued for the first time** for investors to purchase.
- This trade is between the **investors and the original issuer** of securities.
- **Price of securities** is fixed by companies.
- In the primary market, the securities are issued by either **Initial Public Offer (IPO) or Further Public Offer (FPO).**

SECONDARY MARKET

- A Secondary market is a market where **investors purchase securities or assets from other investors.**
- This trade is **between the investors** and price is determined by market.
- Secondary market comprises of equity markets and debt markets.

FINANCIAL PRODUCTS DEALT MARKET



EQUITY SHARES

- The holders of equity shares are the real owners of the company.
- Equity shareholder have a control over the working of the company and they have voting rights.
- The equity shares which are issued by the company are permanent and are non-redeemable
- Equity shareholders receive a dividend on the shares.

PREFERENCE SHARES

- Preference shares represent **ownership in a company**. They are **secondary owner** of business.
- Preference shareholders enjoy the preference over common shareholders in the **payment of dividend and capital**
- Fixed rate of dividend is paid to the preference share holder.

Types of preference Shares

a) **Cumulative Preference Shares**
All **arrears of preference dividend** have to be paid out, before paying dividend on equity shares.

b) **Convertible Preference Shares**
After a specified date, these shares will be **converted into equity** capital of the company.

c) **Participating Preference Share**
Participating in Preference shares **takes part in the company's profit** after a specified fixed dividend, is paid.

DEBENTURES

- A company **raise long-term finance through public borrowings** by the issue of debentures.
- A debenture holder is a creditor of the company. A fixed **rate of interest** is paid on debentures.

TYPES OF DEBENTURE

- Unsecured Debentures
- Secured Debentures
- Registered Debentures
- Bearer Debentures
- Redeemable Debentures
- Irredeemable Debentures
- Convertible Debentures

Government Securities (G-Secs)

These are sovereign coupon-bearing instruments, which are issued by the **Reserve Bank of India**, on behalf of the **Government of India**.

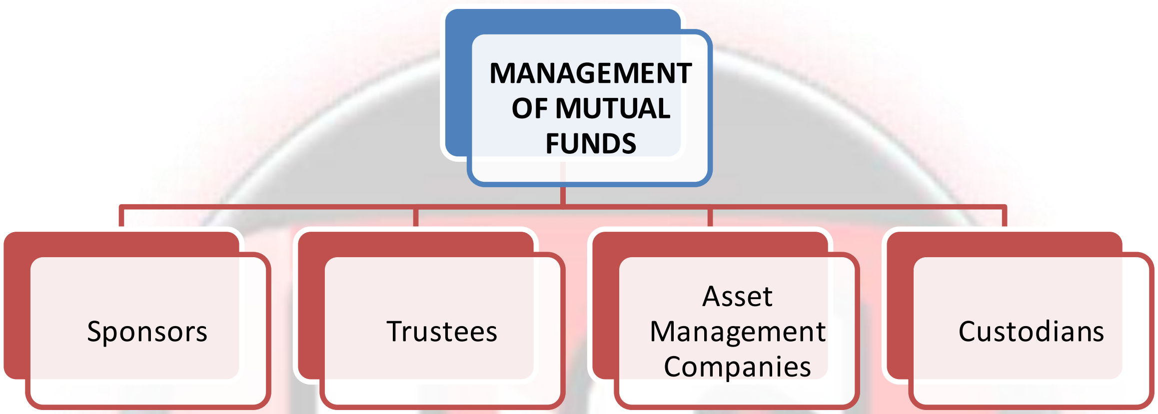
Security Receipts

Security receipts mean receipts or other securities, issued by a **securitisation company or a reconstruction company.**

MUTUAL FUNDS

- Mutual fund is a mechanism for **pooling resources from the public**, by issuing units to them and investing in securities.
- Mutual fund **issues units to investors** and investors of mutual funds are known as **unit holders**.
- SEBI formulates the policies and **regulates the mutual funds** to protect the interest of the investors.

Management Of Mutual Funds



a) Sponsors

The trust is established by a sponsor or more than one sponsor. A sponsor is **like a promoter of a company**.

b) Trustees

- Trustee ensures that the **interest of the unit holders is protected**.
- Two-thirds of the **directors of the trustee company** or board of trustees **must be independent**. they should not be associated with the sponsors.

c) Asset Management Companies

- An AMC manages the funds, by **making investments in various types of securities.**
- **50 per cent of the directors** of the AMC must be independent.

d) Custodian

A custodian, who is also registered with SEBI, **holds the securities of the various schemes of the fund in its custody.**

Advantages of investing in Mutual Funds:

- Professional Management
- Diversification of portfolio and consequent spreading of the risk
- Return Potential
- Flexibility
- Well regulated
- Liquidity
- Low costs
- Transparency
- Tax Benefits
- Choice of schemes

Investors for Mutual Funds:

a) PSUs/Corporates
b) Banks/FIs
c) FIIs
d) High Net Worth Individuals
e) Retail
f) PF and other Trusts

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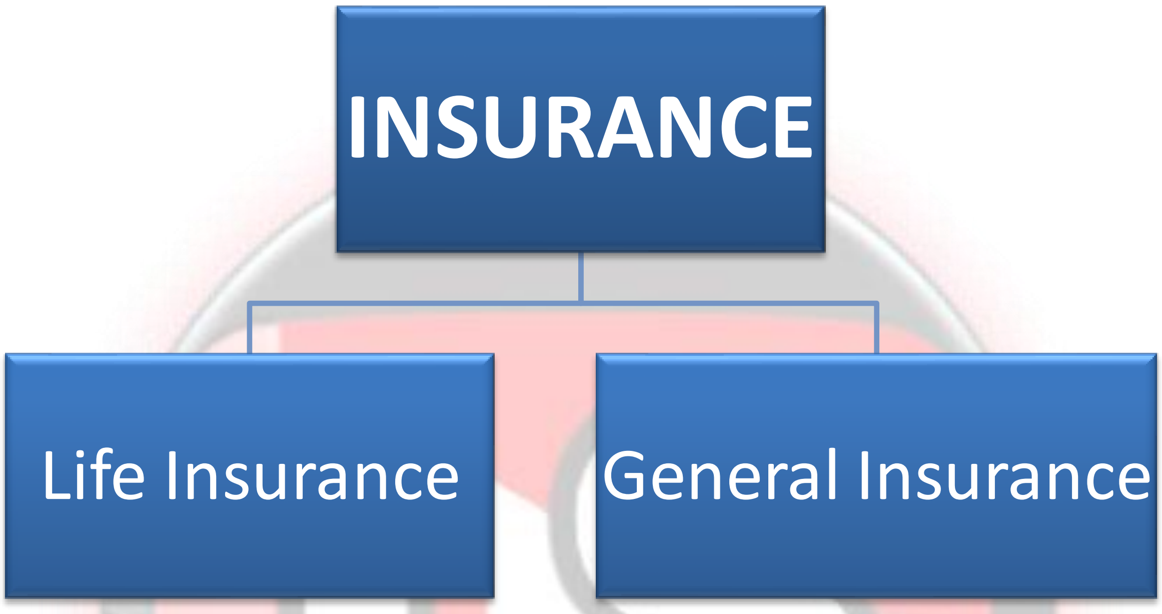
INSURANCE MARKET

Insurance Industry of India

- India's Insurance industry is one of the **premium sectors experiencing upward growth.**
- This upward growth of the insurance industry can be **attributed to growing incomes and increasing awareness in the industry.**
- India is the **fifth largest life insurance market** in the world's emerging insurance markets, **growing at a rate of 32-34% each year.**
- The insurance industry of India has **57 insurance companies - 24 are in the life insurance business, while 34 are non-life insurers.**
- Among the life insurers, **Life Insurance Corporation (LIC) is the sole public sector company.**
- There are six public sector insurers in the non-life insurance segment. In addition to these, there is a sole national re-insurer, namely General Insurance Corporation of India (GIC Re).
- Other stakeholders in the Indian Insurance market include agents (individual and corporate), brokers, surveyors and third party administrators servicing health insurance claims.

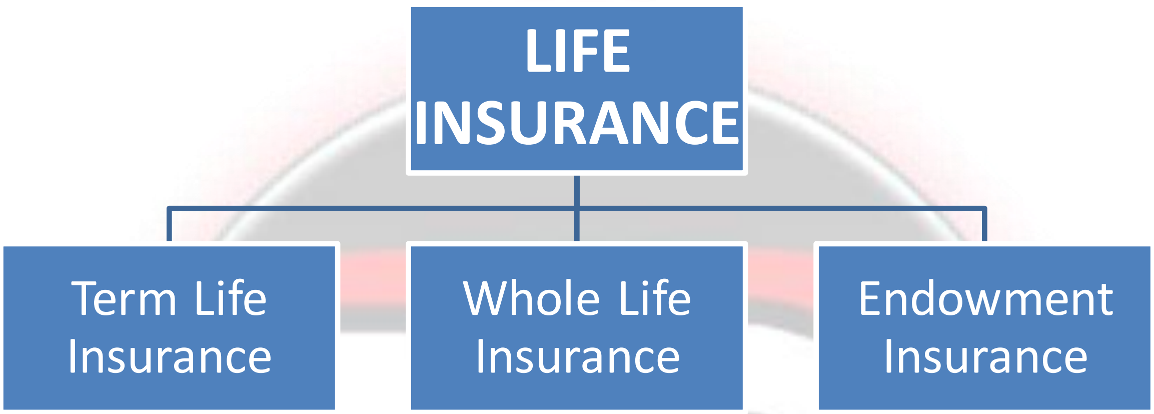
CLASSIFICATION OF INSURANCE



LIFE INSURANCE

Life Insurance can be defined as a **contract between an insurance policy holder and an insurance company**, where the insurer promises to pay a sum of money in exchange for a premium, **upon the death of an insured person or after a set period.**

Types Of Life Insurance



a) Term Insurance Plans

- This type of insurance furnishes protection for a **limited number of years. It terminates with no maturity value.**
- The face amount of the policy is payable **only if the insured's death occurs,** during the stipulated term. Nothing is paid in case of survival.

b) Whole Life Insurance Policies

- Whole life insurance is intended to provide **insurance protection over one's entire lifetime.**
- It provides for the payment of the face amount upon the insured's death regardless of when death occurs.

c) Endowment Insurance Policies

An endowment policy is an insurance policy that provides life coverage, but that **pays a sum of money if the policyholder is still alive after an agreed period.**

d) Money Back Plans or Cash Back Plans

- Under this plan, certain percentage of the sum assured is **returned to the insured person periodically as survival benefit**.
- On the expiry of the term, the balance amount is paid as maturity value.

e) Unit Linked Insurance Policy

A ULIP is an insurance plan that offers the dual benefit of investment to fulfil your long-term goals, and a life cover` to financially protect your family in case of an unfortunate event.

f) Annuity (Pension) Plans

Annuity plans enable one to receive payments **regularly for a lifetime after investing a lump sum.**

Types of Annuities (pension plans)

Immediate Annuity

- In case of immediate annuity, the annuity payment from the Insurance Company starts immediately.
- Purchase price (premium) for immediate annuity is to be **paid in lump sum, in one instalment only.**

Deferred Annuity

A deferred annuity is a contract with an insurance company that promises to pay the owner a **regular income, or a lump sum, at some future date.**

INSURANCE PRODUCTS

General Insurance

General insurance is typically defined as any insurance that is not determined to be life insurance.

Health Insurance

Health insurance is a vital tool for **risk mitigation and helps you deal with medical emergencies**. A health insurance plan covers hospitalization expenses up to the sum insured.

- Room, Boarding expenses
- Nursing expenses
- Fees of surgeon, anesthetist, physician, consultants, specialists
- Anesthesia, blood, oxygen, operation theatre charges, surgical etc.

Travel Insurance

- Travel Insurance offers insurance **protection** to the policy holder, **while on travel**.
- Travel Insurance protects self and/ or family against travel related **accidents, unexpected medical expenditure during travel**, losses such as baggage loss, loss of passport.

Motor Insurance

Motor insurance is a insurance policy meant for **vehicle owners** to protect them from incurring any financial losses that may arise due to damage or theft of the vehicle.

Property Insurance

Insurance of property means insurance of **buildings, machinery, stocks against fire** and allied perils, burglary and so on.

Fire Insurance

- The fire insurance policy offers protection against any **unforeseen loss or damage to/destruction of property, due to fire**.
- Property that could be covered under a fire insurance policy are dwellings, offices, shops, hospitals, places of worship.

Burglary Insurance

- The policy covers property contained in the premises including **stocks/goods owned**.
- It also covers cash, valuables, securities kept in a locked safe or cash box in locked steel cupboard, if a person specifically requests for it.

Marine Cargo Insurance

- Marine insurance covers the **loss or damage caused to the goods during transit** between the point of origin and destination.
- it also covers the **loss/damage of ships, cargo, terminals**.

Group Insurance Schemes

it is a plan of insurance which provides life cover to a **number of persons, under a single policy called the 'Master Policy'**.

Micro Insurance

The IRDAI Micro-Insurance Regulations, 2005 defines a micro-insurance policy, as a **general or life insurance policy**, with a sum **assured of Rs. 50,000 or less**.

Regulator of the Insurance Sector: IRDAI

Insurance Regulatory and Development Authority of India (IRDAI) was set up as **an autonomous body under IRDAI Act, 1999, on the basis of recommendations of Malhotra Committee**.

IRDAI's mission is to protect the interest of the policyholders, to **regulate, promote and ensure orderly growth of the insurance industry and for matters connected therewith**.

Section 14 of the IRDAI Act, 1999 lays down the duties, powers and functions of IRDAI:

- Registering and regulating insurance companies
- Protecting policyholders interest
- Licensing and establishing norms for insurance intermediaries
- Regulating and overseeing premium rates and terms of non-life insurance
- cover
- Specifying financial reporting norms of insurance companies

- Regulating investment of policyholder's funds by insurance companies
- Ensuring the maintenance of solvency margins by insurance companies
- Ensuring insurance coverage in rural areas and of vulnerable section of the society.
- Promoting professional organisations in insurance.