Financial Literacy

- **Introduction**: Financial goods and services have expanded, with credit instruments like cards and electronic transfers widely used. Lack of financial literacy can lead to unmanageable debt, bad credit, bankruptcy, and foreclosure. Tools for learning include books, the internet, social media, financial advisors, banks, government organizations, schools, and institutions.
- **Meaning and Definition**:
    - Financial literacy is the **ability to understand financial concepts and make financially responsible decisions**, including earning, saving, investing, and borrowing money. It refers to the combination of abilities and information that enables wise use of financial resources.
    - The **Organization for Economic Co-operation and Development (OECD)** defines Financial Literacy as: "a **combination of financial awareness, knowledge, skills, attitude and behavior necessary to make sound financial decisions and ultimately achieve individual financial well-being**" (OECD, 2012). It is often used interchangeably with "financial education," "financial awareness," and "financial confidence".
    - **Financial Education** is defined by OECD (2005) as: "the **process by which financial consumers/investors improve**

their understanding of financial products, concepts and risks and through information, instruction and/or objective advice, develop the skills and confidence to become more aware of financial risks and opportunities, to make informed choices, to know where to go for help and to take other effective actions to improve their financial well-being".

- The **National Financial Educators Council** defines financial literacy as: "Possessing the skills and knowledge on financial matters to confidently take effective action that best fulfills an individual's personal, family and global community goals".
- Financial education is the *process* through which financial literacy is developed.

- **Components of Financial Literacy**:
  - **Financial Knowledge**: Understanding fundamental financial principles like simple and compound interest, time value of money, inflation, diversification, risk-return, and interest paid on loans.
  - **Financial Behavior**: How people manage money daily, plan, spend, save, invest, rely on credit, and create safety nets for future well-being.

    - **Financial Attitude**: Attitudes toward saving, short-term desires versus long-term stability, and risk propensity.
- **Importance of Financial Literacy**:
    - It provides the **knowledge and skills to manage money wisely**.
    - It helps consumers **handle life's ups and downs**, avoiding or dealing with problems.
    - **Key effects on life**:
        - **Recognize income and expenses**: Crucial for budgeting, monitoring spending, and saving for goals like vacations or education.
        - **Pay off debt and stay out of debt**: Comparing loan terms for lower interest rates and paying off credit card balances fully.
        - **Avoid debt or bankruptcy**: Establishing an emergency savings account and planning regular savings.
        - **Strive for a safe retirement**: Understanding how much to save and how to achieve retirement goals, gaining control over cash flow, profits, and expenses.
        - **Learn the value of saving**: Start early, even with small amounts, and use compulsory schemes like Recurring Deposits or Systematic Investment Plans (SIP).
        - **Less prone to financial fraud**.

- **Five ways financial savviness is beneficial**:
  1. **Gives More Self-Assurance**: Enables independent financial decisions like choosing a mortgage lender or saving for retirement, rather than relying on others.
  2. **Gives the Ability to Bargain**: Improves negotiation for interest rates on loans or investment goals.
  3. **Makes it Easier to Defend Yourself**: Better equipped to guard against identity theft and internet scams.
  4. **Increases Likelihood of Reaching Objectives**: Setting financial goals prevents overspending and ensures funds for unforeseen expenses or retirement.
  5. **Offers a Higher Standard of Living All Around**: Reduces stress and helps achieve more financially. Financially literate individuals tend to be better earners and those with financial advisors often have higher literacy.

- **Rationale for Financial Literacy**:
  - Daily actions affect financial conditions.
  - Cultural hurdles and limited English proficiency can pose obstacles.
  - Not everyone receives adequate education on personal finance.

  - Strongly impacts the capacity to fulfill financial obligations and achieve financial goals for individuals and families.
  - Consumers must make difficult financial choices throughout life, from legal paperwork to retirement planning.
  - Financial stress negatively impacts work performance and health.
- **Scope of Financial Literacy**:
  - Involves understanding how to **make, use, invest, and save money** effectively by utilizing financial tools and resources.
  - Includes creating household budgets, comprehending debt management, and analyzing credit/investment possibilities, which require a fundamental understanding of concepts like compound interest and time value of money.
  - Covers both **short-term and long-term financial strategies**, such as understanding how current investments affect future tax obligations.
  - Enhancement involves learning to **construct a budget, track costs, apply debt-reduction tactics, and properly plan for retirement**.
  - Other approaches include financial advisor counseling and understanding how money functions, setting and achieving goals, and dealing with financial obstacles.
- **Prerequisites of Financial Literacy**:

- **Level of Education**: Money management is a personal skill developed over a lifetime. Key areas include:
  - **Deposited Funds**: Opening a bank account and setting up direct deposits to keep money safe.
  - **Budgeting**: Understanding expected incomes and expenses, controlling spending, and cultivating saving habits.
  - **Investing**: Educating oneself on interest rates, price ranges, diversification, risk-reduction strategies, and indices to make lucrative investments.
  - **Borrowing**: Comprehending interest rates, compound interest, time value of money, and loan agreements for efficient borrowing and reduced financial stress.
  - **Taxation**: Understanding different tax systems and their impact on net income from various sources to improve financial performance and stability.
  - **Financial Management for Individuals**: Adjusting one's financial mix to enhance investments and savings while reducing borrowings and debt.
- **Communication and Numerical Skills**:
  - **Learn about financial issues**: Reading periodicals, newspapers, books, and exploring online resources like webinars and podcasts.

  - **Employ tools for financial management**: Using online services to track expenditures and prepare budgets.
  - **Ask for Guidance**: Consulting financial experts for advice on managing debt and consolidating payments.
  - **Employ Available Networks**: Seeking advice from friends, relatives, or CPAs.
  - **Budget Knowledge**: Crucial for debt reduction, saving, and future planning.
  - **Aware of Credit**: Understanding credit importance, factors determining credit score, and how to improve it, including managing high-interest credit card debt.
  - **Manage Checking and Savings Accounts**: Essential for paying expenses, keeping money safe, and avoiding overdraft fees.
  - **Learn Debt and Loans**: Understanding different debt types, solutions, and prioritization for repayment.
  - **Invest for the Future**: Planning for retirement by utilizing tax-favored savings vehicles and investing regularly to beat inflation.
  - **Recognize Threat of Identity Theft**: Learning how to protect personal information to prevent fraud.
- **Skills Important for Financial Literacy into Practice**:

- **Critical analysis**: Evaluating prospective risks and their consequences in line with personal values and goals.
- **Resolving issues**: Applying problem-solving and organizational skills to manage household finances, practicing solutions for real-world problems like constrained resources or job loss scenarios.
- **Interaction**: Effectively communicating financial matters, expressing expectations, asking insightful questions, and actively listening during transactions.
- **Information processing and analysis**: Obtaining pertinent information from reliable sources, understanding procedures, and using data for informed decisions.
- **Self-Awareness**: Being conscious of one's own values, goals, and circumstances in financial planning, allowing for adjustment of behaviors that hinder growth.
- **Navigational System**: Following instructions and carrying out standardized procedures in commercial transactions, such as locating information on fraud schemes.
- **Flexibility and openness to learning**: Adapting financial decisions to changing life situations and trends, such as employment changes or retirement, and modifying spending plans accordingly.

- **Advice for Educating Students in Financial Literacy**:

  - **To make the experience relevant, get to know the students**: Align activities with learners' capacities and future decisions, incorporating everyday experiences.
  - **Respect privacy and safeguard personal data**: Establish boundaries for class discussions on personal financial matters.
  - **Use narrative to introduce subjects or to explain complex ideas**: Stories and mock information provide context for understanding economic issues.
  - **Be mindful of your words and tone**: Use empowering language and avoid judgmental terms when discussing financial practices.
- **The "5 C" Approach to Spread Financial Literacy**:
  - **Content**: Develop diverse financial literacy materials for various demographics (students, women, MSMEs, senior citizens, illiterate, etc.).
  - **Capacity**: Enhance the abilities of intermediaries and establish a "Code of Conduct" for financial educators.
  - **Community**: Maximize community-led models and develop sustainable distribution strategies for financial literacy.
  - **Communication**: Utilize technology, media, and creative methods, including public spaces, to disseminate financial education messages.

  - **Collaboration**: Improve cooperation among stakeholders, integrate financial education into professional curricula, and streamline ongoing programs.
- **Focus Areas for Enhancing Financial Education**: Increase women's financial literacy, target East, Central, and North Zones, focus on rural areas, groups with lower education, and the "50 and over" age group.

IV. Financial Institutions

- **Concept**: Financial institutions (FIs), also called "Financial Intermediaries," act as middlemen in the financial system. They provide services to both savers and investors. They take deposits from savers and lend those monies to borrowers.
- **Importance**:
  - **Promotional activities**: Provide venture, particular, and seed capital to new entrepreneurs.
  - **Infrastructural facilities**: Offer basic facilities for lucrative ventures, such as industrial estates and tech parks.
  - **Balanced development**: Expand banking to rural and semi-urban areas, transferring capital to less developed regions.
  - **Employment generation**: Channel funds for investment, building industrial facilities, and accelerating industries.
- **Functions**:

- **Convert short-term liabilities into long-term investments**: For example, insurance companies pool premiums (short-term liabilities) to cover claims and generate profit (long-term investment).
- **Convert risky investments into risk-free investments**: Mitigate investment risks by offering options like fixed deposits, recurring deposits, and post office deposits that have inevitable future returns.
- **Provide a range of services**: Such as Management Information System (MIS) reporting to monitor borrowers' financial situations and repayment capacity.
- **Payment and Settlement Services**: Facilitate transactions by processing electronic fund transfers, issuing credit and debit cards, and administering payment systems.
- **Asset Management**: Oversee client investment portfolios, offering expertise in diversification, investment selection, and market monitoring.
- **Financial Advisory**: Provide advice on wealth management, tax, estate, retirement, and financial planning to help clients make informed decisions.
- **Money Supply Regulation**: Banks, particularly the central bank, regulate the amount of money in the economy to ensure stability and reduce inflation.

  - **Pension Fund Services**: Create pension plans and investment vehicles to help households save for retirement.
  - **Ensure economic growth**: Governments oversee FIs to promote economic expansion, requiring them to offer low-interest loans during economic challenges.
- **Categorization of Financial Institutions**:
  - **Banking Institutions**:
    - **Central Bank (Reserve Bank of India - RBI)**: The central bank of India, regulating all other banks and implementing monetary policy. It is the sole issuer of currency notes (except one rupee note) and acts as the government's banker and adviser. It does not deal with the general public.
    - **Commercial Banks**: Offer basic banking services like accepting deposits, providing check account services, and granting various loans (business, personal, mortgage, vehicle, education) to individuals and businesses. They generate revenue by charging interest on loans.
      - **Scheduled Banks**: Listed in the 2nd Schedule of the RBI Act, 1934, including private, foreign, multinational, and qualifying cooperative banks.

  - **Non-Scheduled Banks**: Not listed in the RBI Act's 2nd Schedule.
  - **Public Sector Banks (PSBs)**: Majority-owned by the government (>50% capital), such as the State Bank of India (SBI), which is India's largest.
  - **Private Sector Banks**: Privately owned and managed, prioritizing profitability, like ICICI and HDFC Bank.
  - **Foreign Banks**: Incorporated in foreign countries but operate in India, adhering to both home country and RBI rules, e.g., HSBC, Standard Chartered Bank.
- **Cooperative Banks**: Small financial entities whose members are both owners and customers. They operate on a mutual benefit basis and are regulated by RBI under the State Cooperative Act. They provide financial assistance primarily in rural and semi-urban areas.
  - **Urban Cooperative Banks (UCBs)**: Located in urban or semi-urban centers, providing financing for smaller businesses.
  - **Rural Cooperative Banks**: Primarily agricultural credit societies that offer agricultural loans.

    - **Development Banks**: Established to promote lagging sectors of the economy by providing extended funding for projects requiring significant capital investment and long repayment periods, such as industrial, agricultural, export-import, and housing sectors.
  - **Insurance Sectors**:
    - **Insurance**: A contract between an individual (insured) and an insurance company (insurer) to provide financial safeguards or compensation for losses due to specific events.
    - **Insurance Companies**: Collect premiums from customers and use the pooled money to pay claims, thus spreading or transferring risks. They generate savings within the economy.
    - **Principles of Insurance**: Utmost Good Faith, Proximate Cause, Insurable Interest, Subrogation, Indemnity, Contribution, and Loss Minimization.
  - **Postal Sectors**:
    - **India Post**: A long-standing institution that, in addition to mail delivery, offers various financial services, including banking, insurance, and investments.
    - **India Post Payments Bank (IPPB)**: Launched in 2018, it is a "part-bank" focused on demand deposits and

payment/remittance services but does not offer loans. It provides services through mobile apps and doorstep banking via postmen and Gramin Dak Sewaks.

- **New Government Bank/Insurance/Postal Schemes**:
  - **General Credit Cards (GCC)**: Up to Rs. 25,000 offered by semi-urban and rural banks.
  - **Fintech**: Improves and automates traditional finance through software and mobile apps, offering low-cost services.
  - **Bank-led Aadhaar Enabled Payment System (AEPS)**: Allows Aadhaar-enabled bank customers to perform basic financial operations through Business Correspondents.
  - **Pradhan Mantri Fasal Bima Yojana (PMFBY) and Restructured Weather-Based Crop Insurance Scheme (RWBCIS)**: Provide affordable crop insurance to farmers against natural risks.
  - **Pradhan Mantri Jan Dhan Yojana (PMJDY)**: A national financial inclusion mission aiming to provide financial literacy, banking access, and basic bank accounts with accidental insurance coverage.

- **Pradhan Mantri Suraksha Bima Yojana (PMSBY)**: Protects against accidental death and total disability for individuals aged 18-70 years, with an auto-debit option from bank accounts.
- **Pradhan Mantri Vaya Vandana Yojana (PMVVY)**: A pension program implemented by LIC for individuals aged 60 and above, guaranteeing an 8% annual return for 10 years.
- **Fincluvation Platform (IPPB)**: Collaborates with fintech start-ups to find new ways to help underserved populations access financial services.
- **Digital Advancement of Rural Post Office (DARPAN)**: Equips Branch Post Offices with SIM-based handheld devices for online postal and financial transactions.

V. Financial Planning and Budgeting

- **Wants, Needs and Scarcity of Resources**:
  - **Needs** are basic requirements for survival and functioning (e.g., food, housing, transportation).
  - **Wants** are desires that fulfill needs but are not essential for survival and are unlimited (e.g., a specific type of car over public transport).

    - **Scarcity** describes a situation where resources are limited, but human wants are unlimited, forcing individuals, firms, and governments to make choices and prioritize.
- **Financial Planning**:
    - **Definition**: Evaluating necessary capital and determining its competition; establishing a company's financial strategy for raising, investing, and managing capital.
    - **Goals**: Calculating necessary capital (short-term and long-term), determining capital structure (debt-to-equity ratios), developing financial policies (borrowing, lending, cash management), and maximizing returns by efficient resource use.
    - **Importance**: Ensures necessary finances are raised, maintains stability by balancing cash flows, facilitates investments, supports growth and expansion strategies, helps overcome risks from market shifts, and reduces uncertainties.
- **Budgeting**: A plan for how much money will be spent over a certain period of time.
    - **Types of Budgets**:
        - **Personal Budget**: A strategy for balancing an individual's or household's income and expenses to manage spending and achieve financial objectives. Techniques include the **50/30/20 Budget** (50% needs,

30% wants, 20% savings), the **80/20 method** (save 20% first), **partial savings accounts** (for specific goals), the **cash-only envelope method**, and **zero-based budgeting** (all income allocated to expenses).

- **Family Budget**: A plan for all household financial transactions, developed with family participation to direct money, foster financial transparency, and manage fixed and variable expenses. It involves listing income, listing expenses, and subtracting income from expenses (resulting in a zero-based budget).
- **Business Budget**: Helps owners determine capital sufficiency for operations, growth, and revenue. It helps avoid overspending or undersaving. Creating one involves verifying industry norms, making a spreadsheet for projections, allowing for flexibility, cutting expenses, consistently evaluating the company, and shopping for services/suppliers.
- **National Budget**: A country's annual financial report forecasting income (taxes, fees) and expenses to fund social programs, infrastructure, research, education, arts, and defense. The process involves circulars to ministries for estimates, consultations on plans,

distribution of income, pre-budget conferences, and presentation in Parliament.

- **Planning and Budgeting Process**: An analytical tool that creates a bottom-up budget and aligns with top-down goals. It enables iterative budgeting, evaluation of business alternatives, and setting financial goals. It allows for real-time responses to a dynamic business environment and "what-if" analysis. The process includes setting objectives, accessing data, developing a base budget, refining, reporting, and monitoring.
- **Budget Deficit and Budget Surplus**:
    - **Budget Deficit**: Occurs when **spending (expenditures) exceeds income (revenue)**. It signals a nation's financial stability and can lead to increased borrowing, higher interest costs, insufficient reinvestment, and potentially inflation and recession.
    - **Budget Surplus**: Occurs when **revenue exceeds existing costs**, leaving extra money for other purposes.
    - **Types of Budget Deficits**:
        - **Fiscal Deficit**: The difference between total expenditures and total receipts (excluding borrowings) for a fiscal year. It reveals the total borrowing required by the government. Consequences include a debt trap, inflation (due to money printing), foreign dependence,

and hampered future growth. It can be financed through borrowings (internal or external) or deficit financing (printing new money).

    - **Revenue Deficit**: The disparity between revenue expenditure and revenue receipts, indicating the government's inability to cover ongoing expenses. It suggests the government is consuming savings and must offset the imbalance through capital inflows or disinvestments.
    - **Primary Deficit**: The fiscal deficit excluding interest payments on prior borrowings. It shows the borrowing necessary without including loan interest payments. A low or zero primary deficit suggests borrowing mainly for interest payments.

- **Avenues for Savings from Surplus**:
  - **Recurring Deposit (RD)**: Fixed sums deposited regularly (e.g., monthly) earning a fixed interest rate, encouraging regular saving.
  - **Senior Citizens Savings Scheme (SCSS)**: Provides steady income, high safety, and tax savings for individuals over 60.
  - **Fixed Deposits (FD)**: Safely park lump sums for fixed periods, earning higher interest than savings accounts, used by banks for lending.

  - **Kisan Vikas Patra (KVP)**: A long-term investment option from India Post where the invested amount doubles in 10 years and 3 months.
  - **Ultra-short-term and liquid funds**: Open-ended mutual funds investing in short-term debt securities, offering minimal risk and high liquidity.
  - **Savings Account**: A common method for storing short-term needs and emergency funds, earning 4-6% annually, though not ideal for large surpluses due to inflation.
  - General advice for saving includes planning spending, cutting wasteful expenses, paying off high-interest debts first, consistently depositing funds, "paying yourself first," and utilizing tax-benefit programs.

VI. Banking Products and Services

- **Types of Bank Deposit Accounts**:
  - **Savings Bank Account**: For individuals with limited income, requiring a minimum balance and earning quarterly interest. It offers safety and access to funds.
  - **Term Deposit (Fixed Deposit)**: Funds deposited for a fixed period, offering higher interest rates due to no withdrawals during the term.

- **Current Account**: Designed for businesses and commercial institutions, allowing multiple withdrawals and deposits without earning interest.
- **Recurring Deposit**: Allows regular (e.g., monthly) fixed deposits for a specified period, earning compounded interest, suitable for systematic savings.

- **Banking Products and Services (beyond deposits)**:
    - **Loans**: Banks provide various loans to individuals and companies, earning interest as their main income source.
    - **Overdraft Facility**: Allows account holders (especially businesses) to withdraw funds even if their balance is zero, suitable for emergencies, with less documentation and lower interest than a typical loan.
    - **Discounting of Bills**: Businesses can receive early payment for services by having their bills discounted by banks.
    - **Encashing Cheques**: A service available for both savings and current account holders, with multi-city cheque book facilities available.
    - **Collecting and Paying Instruments of Credit**: Banks act as custodians for collecting credit instruments like promissory notes.
    - **Exchange of Foreign Currency**: Facilitates conversion for account holders involved in international trade.

    - **Consultancy**: Many banks offer financial consultancy for wealth enhancement, investment, and tax management.
    - **Utility Bills Payment**: Banks facilitate payment of various bills and taxes.
- **Documentation for Banking Services**:
    - **PAN Card**: A ten-digit alphanumeric number issued by the Income Tax Department to identify taxpayers and track transactions, helping to curb tax evasion.
    - **Address Proof**: Required to verify customer identity, with documents like Passport, Driving License, Voter ID, Aadhaar Card, utility bills, or bank statements.
    - **KYC Norms (Know Your Customer)**: A mechanism to verify customer identity before opening an account and requires periodic updating to ensure genuineness and protect against fraud.
- **Various Types of Loans**:
    - **Education Loan**: Funds for higher education, offered by financial institutions and NBFCs, with tax benefits under Section 80E.
    - **Consumer Durable Loan**: For purchasing durable goods (life of at least 3 years), typically unsecured, with high interest rates and quick approval.

  - **Vehicle Loan**: Classified into personal (bikes, cars for personal use) and commercial (for business purposes), with varying eligibility and interest rates.
  - **Home Loans**: For owning a dwelling, offering benefits like easy availability, multi-purpose use (construction, renovation), lower interest rates, fast processing, long tenure (up to 30 years), and tax benefits under Sections 80C, 24B, and 80EEA.
  - **Short-Term, Medium-Term, and Long-Term Loans**: Categorized by duration (up to 1 year, 1-3 years, and over 3 years, respectively). Short-term loans often have lower interest rates, quick funding, and less documentation. Types include merchant cash advances, credit lines, payday loans, and online loans.
- **Financing Businesses**:
  - **Microfinance**: Tailored for small businesses without access to traditional financial institutions, aiming for self-sufficiency. Examples include MUDRA loans (Shishu, Kishor, Tarun).
  - **Cash Credit**: Short-term credit for working capital needs, backed by collateral, with repayment typically within 12 months.

  - **Mortgage**: A security given by the borrower (mortgagor) to the lender (mortgagee) for immovable assets (like property) to ensure loan repayment, without transferring ownership. Types include Simple, Conditional Sale, Usufructuary, and English mortgages.
  - **Reverse Mortgage**: A loan for senior citizens (over 60) where they receive periodic funds against their property, which serves as security.
  - **Hypothecation**: Pledging goods against debt without delivering them to the lender, common in vehicle finance where the vehicle itself acts as security. Possession remains with the borrower, but ownership is with the lender until repayment.
  - **Pledge**: A bailment of goods as security where the lender (pledgee) takes actual possession of the asset until the loan is fully repaid.
- **Agricultural and Allied Activities Interest Rates**: Banks offer competitive rates for agricultural loans, covering farm mechanization, crop loans, dairy, poultry, fisheries, and land development.
- **New Technologies and Initiatives in Banking**:
  - **Cashless Banking**: Promoted by the government to reduce costs and risks associated with cash. Includes plastic money

(debit/credit cards), mobile wallets, USSD for non-smartphone users, and QR codes.

- **E-Banking (Electronic Banking)**: Utilizes telecom networks for virtual or online banking services. Includes:
  - **Mobile Banking**: Performing account transactions, bill payments, and balance checks via mobile phones.
  - **Electronic Clearing System (ECS)**: Automating credit card bills or other payments from savings accounts.
  - **Smart Cards**: Cards storing data on microchips, used for monetary transactions and identification, with encrypted security.
  - **Electronic Fund Transfers (EFTs)**: Electronic exchange of cash between accounts without direct bank staff intervention.
  - **Telephone Banking**: Performing financial transactions over the phone.
  - **Internet Banking**: Accessing account information and performing transactions online.
  - **Home Banking**: Conveniently conducting banking from home.
- **Checking Counterfeit Currency**: RBI has implemented measures to identify fake currency notes (FCNs) based on

features like thread, watermark, raised printing, alignment, and typography.

- **CIBIL (Credit Information Bureau India Ltd.)**: Provides credit-related information about individuals and companies, enabling banks to filter loan applications based on credit history.
- **ATM (Automated Teller Machine)**: Allows account holders to manage money, make payments, and deposits without visiting a bank branch.
- **RTGS (Real Time Gross Settlement)**: An electronic system for immediate and continuous settlement of large-value inter-bank transactions.
- **NEFT (National Electronic Funds Transfer)**: A nationwide electronic payment platform for easy and quick fund transfers, requiring IFSC codes and account details.
- **IMPS (Immediate Payment System)**: A quick electronic fund transfer service via mobiles, requiring customer registration.
- **Debit and Credit Cards**: Debit cards directly deduct money from an account, while credit cards provide access to borrowed funds up to a limit.

  - **App-based Payment Systems**: Allow consumers to make payments for goods and services via mobile apps, involving secure data transfer and quick authorization.
  - **Bank Draft (Demand Draft - DD) and Pay Order**: DDs are negotiable instruments guaranteed by the bank, with nil chance of dishonor, payable anywhere in the country. Pay Orders are similar but only realizable in the city where made.
- **Handling Banking Complaints**: Customers can file complaints with the **Banking Ombudsman** if dissatisfied with bank services, if the bank has not responded within 30 days, or if the response is unsatisfactory. The Ombudsman scheme was introduced by RBI in 1995 for speedy resolution.

VII. Insurance Services and Products

- **Concept of Insurance**: A social device that helps reduce or eliminate the risk of financial loss (not the occurrence of events) for individuals and businesses by pooling risks among a large group. It's a contract between an insurer and an insured, where the insurer compensates for losses in exchange for premiums.
- **Importance of Insurance**:
  - **Risk Pooling**: Insurers collect premiums from many customers to create a pool of funds to cover losses incurred by a few.

  - **Financial Protection**: Mitigates financial impact of unforeseen disasters.
  - **Long-Term Savings**: Many life insurance products combine protection with savings, serving as tools for long-term wealth creation.
  - **Security**: Provides income and a sense of security, especially in changing family structures (e.g., nuclear families).
  - **Peace of Mind**: Relieves financial stress and provides a safety net against uncertainties like accidents or diseases.
- **Principles of Insurance**:
  - **Principle of Utmost Good Faith (Uberrima fides)**: Both insurer and insured must provide full, clear, and concise information about the contract and subject matter. Failure to do so can void the contract.
  - **Principle of Proximate Cause**: The nearest and most dominant cause of a loss should be considered when determining a claim. This principle is not used in life insurance.
  - **Principle of Insurable Interest**: The insured must have a financial or personal interest in the subject matter (life or property) at the time of the contract and the loss (except for life insurance, where spouses don't need proof).

  - **Principle of Subrogation**: After settling a claim, the insurer gains the right to pursue a negligent third party responsible for the loss, preventing the insured from recovering twice.
  - **Principle of Indemnity**: The insured is compensated only for the actual losses suffered, not allowed to profit from the loss. This is strictly followed in general insurance but not relevant for life insurance.
  - **Principle of Contribution**: If a property is insured by multiple insurers, they share the loss proportionally. An insurer who paid the full claim can seek contribution from others.
  - **Principle of Loss Minimization**: The insured is obligated to take reasonable steps to minimize the loss to the insured property, even if it is insured.
- **Categories of Insurance Products**:
  - **Life Insurance Products**: Cover individuals against the risk of death. Many types combine protection with savings for long-term goals.
  - **General Insurance Products**: Provide coverage for monetary losses due to events other than death, covering risks like health, vehicle, marine, liability, and commercial risks.
- **Types of Life Insurance Policies**:

- **Term Life Insurance (Term Plan)**: Provides a death benefit to the beneficiary only if the insured dies during a fixed policy term. It offers high coverage at nominal premiums and is considered the simplest form of life insurance.
- **Whole Life Insurance Plan**: Remains active for the duration of the insured's life (up to 100 years) as long as premiums are paid, providing a death benefit to the nominee. It allows cancellation or borrowing against the policy, and the death benefit is tax-free.
- **Unit Linked Insurance Plan (ULIP)**: Offers dual benefits of investment and life insurance. A portion of premiums covers insurance, while the rest is invested in various market-backed instruments (equity, debt). ULIPs are flexible and offer tax-saving benefits.
- **Endowment Policy**: Acts as both an insurance and a savings instrument, providing maturity benefits (a lump sum) at the end of the policy tenure even if no claim is made. It encourages savings and provides financial security.
- **Money Back Policy**: Offers policyholders a percentage of the total sum assured at periodic intervals (Survival Benefits) and the remaining amount at maturity. If the policyholder dies, the full sum assured is paid without deductions.

  - **Retirement Plan**: Focuses on providing financial stability and security post-retirement by building a corpus through regular investments that convert into a steady income stream. It also includes death benefits. Types include National Pension Scheme (NPS), Public Provident Fund (PPF), Employee Provident Fund (EPF), and Annuity plans (Deferred and Immediate).
- **Health Insurance**:
  - **Meaning**: Coverage that reimburses medical and surgical expenses incurred due to illness or injury requiring hospitalization. Many insurers offer cashless treatment at network hospitals.
  - **Need**: Rising healthcare costs and medical bills make it essential, especially for seniors and those managing family finances.
  - **Benefits**: Covers hospitalization expenses (pre and post), offers lifetime renewability, cashless treatment, No Claim Bonus, no room rent capping, medical check-ups, and tax benefits under Section 80D of the Income Tax Act.
  - **Types**: Individual Health Insurance, Family Floater Health Insurance, Senior Citizen Health Insurance, Women-Specific Health Insurance Plans, Critical Illness Insurance Plans, Disease-Specific Health Plans, and Top-Up Health Insurance.

- **Property Insurance**:
  - **Meaning**: Protects physical goods and equipment of a business or home against losses from theft, fire, and other perils. It can be an all-risk policy and may cover personal liabilities. It typically covers fire, theft, wind, and lightning, but often excludes water damage (floods, tsunamis) and war-related events.
  - **Cost Covered**:
    - **Replacement cost**: Covers the expense of repairing or replacing property with equal or greater value, based on replacement cost values (not actual cash value).
    - **Actual cash value**: Pays replacement cost minus depreciation, so the insured receives the value of the old property.
  - **Types**: Homeowner’s Insurance (most common, often mandatory by lenders), Renter’s Insurance (protects tenant's personal items), Fire Insurance (specific coverage for fire and related risks), Commercial Property Insurance (for offices, warehouses, factories), and Natural Disaster Insurance (for perils like earthquakes, floods).
- **Postal Life Insurance (PLI)**:
  - The oldest insurer in India (established 1884), offering high returns with low premiums. Maximum sum assured is Rs. 50

lakhs. Available to government, public sector, and other specific employees.

- **Characteristics**: Nomination facility, loan facility, policy renewal, duplicate policy documents, and conversion options.
- **Benefits**: Income tax exemption (Sec. 88), free policy transfer, passbook facility, flexible premium payment options, incentives for advance payments, and centralized accounting for quick claims.

- **Rural Postal Life Insurance (RPLI)**:
  - Introduced following the Malhotra Committee's suggestion (1993) to leverage the postal network to promote insurance in rural areas. Offers high returns for the lowest premiums.
  - **Benefits**: Changeable nominations, policy assignment for loans, duplicate policy bonds, policy revival, and conversion options.
  - **Schemes**: Include **Whole Life Assurance (Garma Suraksha)** and **Convertible Whole Life Assurance (Grama Suvidha)** (both based on whole life assurance), and **Endowment Assurance (Grama Santosh)**, **Anticipated Endowment Assurance (Grama Sumangal)**, and **GRAM PRIYA** (all based on endowment policy).

VIII. Stock Market

- **Overview**: Shares help develop long-term wealth, potentially beating inflation over time. The Indian stock market has a long history, with the Bombay Stock Exchange (BSE) established in 1875 and the National Stock Exchange (NSE) in 1993, both transitioning to automated trading.
- **Functions of the Stock Market**:
  - **Liquidity**: Facilitates the buying and selling of securities, allowing investors to convert investments into cash.
  - **Making Room for Speculation**: Allows healthy speculation to create liquidity and demand for securities.
  - **Economic Indicator**: Serves as a reliable barometer of economic growth, reflecting national economic changes through stock price fluctuations.
- **Stock Market Indices**:
  - **Sensex**: Also known as the Sensitive Index, it is a value-weighted index of **30 blue-chip stocks** actively traded on the Bombay Stock Exchange (BSE). Its base year is 1978-1979. It uses a **free-float capitalization methodology**, considering only freely tradable shares.
  - **Nifty**: An acronym for "National Stock Exchange Fifty," launched by the NSE in 1996. It is the benchmark index of the NSE, featuring the top **50 (currently 51) equity firms**. It

also uses the **float-adjusted technique and market capitalization approach**.

- **Capital Market**: A financial system where long-term funds are raised through the exchange of financial securities like stocks and bonds. It connects savers and investors to wealth creators.
  - **Primary Market**: The "new-issue market" where **new securities are issued for the first time** to raise long-term capital for new or expanding firms. Involved parties are the company (issuer), underwriter (determines price), and investors (purchasers). Prices are fixed.
  - **Secondary Market**: Where **previously issued stocks and bonds are bought and sold**. Stock exchanges like BSE and NSE operate as secondary markets. It provides liquidity and marketability to existing securities. Prices fluctuate based on demand and supply.
- **Company Issues and Offerings**:
  - **Initial Public Offering (IPO)**: The process where a **private company goes public by issuing its shares to the general public for the first time** to raise capital. It can be a fixed price offering or a book-building issue.
  - **Follow-on Public Offer (FPO)**: Occurs when a **firm already listed on a stock market issues additional shares** to existing shareholders or new investors, typically to raise

more capital or reduce debt. FPOs can be dilutive (issuing new shares, reducing EPS) or non-dilutive (existing shareholders selling private shares).

  - **Offer for Sale (OFS)**: A mechanism for **promoters or major shareholders (holding >10%) of a listed company to sell their existing shares** to the public through the exchange platform. Unlike FPOs, OFS involves only existing shares, not new ones, and has a shorter transaction window (one day).

- **Mutual Fund**: An investment vehicle where **multiple individuals pool their savings** to invest in a diversified portfolio of stocks, bonds, and other securities. It is managed by a professional fund manager.
  - **Benefits**: Diversification (reducing risk), ease of use (liquidity, convenient for individual investors), economies of scale (lower transaction fees), and management expertise.
  - **Disadvantages**: Variance in returns, cash drag (idle cash), high costs (management fees), and liquidity issues (redemptions at day end).
  - **Types**:
    - **Based on structure**: Open-ended (continuous trading), Close-ended (fixed unit capital, limited purchase time), and Interval funds (transactions at specific intervals).

        - **Based on investment objective**: Equity funds (invest in shares, high risk/return), Debt funds (invest in fixed-income securities, stable/low risk), and Hybrid funds (balance debt and equity).
        - **Based on investment style**: Active Funds (managers actively select stocks to beat benchmarks) and Passive Funds (portfolios mirror indices like Index Funds or ETFs).

- **Risk in Investment**: Unavoidable in investments, referring to any uncertainty that could negatively impact finances.
    - **Types of Risk**:
        - **Systematic Risk**: Affects the entire market or a segment (e.g., political instability, war, earthquakes). It cannot be diversified away.
        - **Unsystematic Risk**: Unique to a specific company or industry (e.g., strikes, lawsuits). It can be reduced through diversification.
    - **Managing Risk**: Strategies include **Asset Allocation** (including different asset classes in a portfolio to spread risk) and **Diversification** (spreading money among various investment options within an asset class).
- **Key Stock Market Concepts (Part 2)**:

- **Equity Shares & Preference Shares**: Both represent share capital. Preference shares have preferential rights for dividend payment and capital repayment during winding up, unlike equity shares. Equity shareholders have voting rights on all resolutions, while preference shareholders vote only on resolutions affecting their rights. Equity shares are not redeemable, while preference shares are (typically within 20 years).
- **Dividend**: Payments made by a company from its profits to shareholders. The process involves an announcement date, an ex-dividend date (buy shares before this to receive dividend), a record date (cutoff for shareholder identification), and a payment date. Types include cash, stock, asset, and special dividends.
- **Face Value (Nominal Value)**: The declared or stated value of each share as per the company's registration documents. Market value can differ significantly from face value.
- **Bonus Shares**: Shares issued by a company to existing shareholders free of charge, proportionate to their existing holdings, thus not changing relative shareholding.
- **Stock Split**: Dividing one share into multiple shares, reducing the face value and increasing the number of shares.

Similar to bonus issues, it does not affect relative shareholding.

- **Share Buyback**: A company acquires its own shares, leading to a **reduction in the number of outstanding shares** (opposite of bonus issues/stock splits).
- **Debentures**: A debt instrument issued by a company as evidence of debt, involving interest payments (coupon) to debenture-holders and principal repayment. Coupons can be fixed, floating, or zero-coupon (issued at a discount). Debentures can be convertible (into shares) or non-convertible.
- **Market Value**: The price at which a share was last traded on the stock exchange.
- **Market Capitalization**: The aggregate value of a company, calculated by multiplying its current share price by the total number of outstanding shares.
- **Demat Account**: A dematerialized account that holds securities (shares, mutual funds) in electronic form, replacing physical certificates. It facilitates smooth, convenient, and paperless trading. It is serviced by Depositories (NSDL, CDSL) through Depository Participants (DPs).

- **Delivery Instruction Slip (DI Slip)**: Before demat accounts, physical slips were used to transfer shares; now, online DI slips simplify the process.
- **Business Days, Pre-open Session, Trading Session**: A business day is a trading day (excluding weekends/bank holidays). The pre-open session (9:00 AM to 9:15 AM) allows order collection and matching to prevent extreme price movements at market open. The regular trading session is from 09:15 AM to 3:30 PM.
- **Opening Price & Closing Price**: The opening price is the first traded price of the day. The closing price is the weighted average of prices traded in the last 30 minutes of a business day. These can differ due to market activity between trading sessions.
- **Blue-Chip Stocks**: Companies with a strong reputation for performance, consistent earnings quality, and operational reliability, often with a long track record of profits.
- **Defensive Stocks**: Deliver returns regardless of the wider economic or stock market performance, as they typically sell essential products and services.
- **Bull, Bear, Bull Market, Bear Market & Stop-Loss**:
    - **Bull**: An investor who expects share prices to rise and buys in anticipation.

    - **Bear**: An investor who expects share prices to decline and sells in anticipation.
    - **Bull Market**: A market where share prices are rising, and economic conditions are favorable.
    - **Bear Market**: A market where share prices are declining, and economic growth is slowing.
    - **Stop-Loss**: An advance order to sell a share automatically when it reaches a predetermined price, used to limit potential losses.
  - **Derivatives**: Contracts that derive their value from an underlying asset or reference point (e.g., futures, options).
    - **Call Option**: Gives the holder the **right to buy** an asset at a predetermined price, but not the obligation.
    - **Put Option**: Gives the holder the **right to sell** an asset at a predetermined price, but not the obligation.
  - **Holding Period**: The duration for which an investor holds an investment before selling it. This period is important for both returns and taxation.
  - **Short-term/Long-term Capital Gains Tax**: Capital gains from selling shares are classified based on the holding period. Short-term capital gains (holding period less than 12 months) are currently taxed at 15%. Long-term capital gains (holding

period more than 12 months) are taxed at 10% on gains exceeding Rs 1 lakh.