



**FINAL EXAMINATION**  
**MODEL QUESTION PAPER**  
**PAPER – 20B**

**SET - 1**  
**TERM – DEC 2024**  
**SYLLABUS - 2022**

**RISK MANAGEMENT IN BANKING AND INSURANCE**

**Time Allowed: 3 Hours**

**Full Marks: 100**

The figures in the margin on the right side indicate full marks.

**SECTION – A (Compulsory)**

**1. (a) Choose the correct option:**

**[10 x 2 = 20]**

- (i) “Payments credited to the wrong account” is an example of which Risk?
- Credit Risk
  - Operational Risk
  - Market Risk
  - Liquidity Risk
- (ii) When a bank’s image and public standing is in doubt and leads to the public’s loss of confidence in a bank, it is called as-----.
- Reputational risk.
  - Moral Hazard.
  - Operational risk.
  - Market risk
- (iii) In line with BASEL-II guidelines, what was the minimum percentage CRAR prescribed by Reserve Bank of India?
- 9%
  - 8%
  - 7%
  - 6%
- (iv) In which Policy, the insurer agrees to pay the assured or his nominees a specified sum of money on his death or on the maturity of the policy whichever is earlier?
- Money Back Plan
  - Endowment Plans
  - Annuity Policy
  - Unit-linked insurance plan
- (v) Master policy is issued for \_\_\_\_\_
- Term insurance schemes
  - permanent insurance
  - individual insurance
  - group insurance schemes



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- (vi) \_\_\_\_\_ is a voluntary termination of the contract by the policy holders.
- Report
  - Surrender
  - Prospectus
  - Cover note
- (vii) Which of the following involves proportionate sharing of the insurance among more than one insurer?
- Premium
  - Cover note
  - Reinsurance
  - Co-insurance
- (viii) Which of the following method reduces the chance of loss to zero?
- Risk Transferring
  - Risk avoidance
  - Risk retention
  - Risk reduction
- (ix) The risk stating the assets are sold at low prices because of sudden surge in withdrawals of a
- Payment Risk.
  - Liquidity Risk.
  - Income Risk.
  - Balance Risk.
- (x) Insurable interest means
- Statement A: Legal right to insure.
- Statement B: Have suffered financial loss.
- Both statements are correct
  - Both statements are wrong
  - Statement A is correct
  - Statement B is correct

- (b) Based on the following case, you are required to answer the questions no. (i) to (v): **[5x2=10]**

Mumbai branch of Popular Bank granted a term loan of ₹ 2 Crores to a reputed corporate client for 6 years at 2% + Base rate.

Presently, the base rate of the bank is 10%. The loan will be repaid by the company in 20 equal quarterly instalments with a moratorium period of 6 months. The loan has been funded by the bank out of fixed deposit @ 7% fixed rate of interest, of equal amount, with a maturity period of 4 years. The CRR and SLR are to be ignored for any calculations.



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- (i) In this case, the loan is carrying a floating rate and the deposit is carrying a fixed rate. If the rate of interest is reduced during the first 4 years i.e., during the period of FDR, what type of risk, the bank is exposed to:
- Funding Risk
  - Embedded Options Risk
  - Basis Risk
  - Gap or Mismatch
- (ii) The rate of interest at the end of 4 years on a loan and the fresh deposit to be raised for funding this loan can be different. This is called:
- Reinvestment Risk
  - Embedded Option Risk
  - Basis Risk
  - Gap or Mismatch
- (iii) With quarterly repayment of the loan, the repayment amount has to be deployed by the bank elsewhere and the rate of interest may not be at par with the interest being charged on the loan. Due to this, the bank is exposed to:
- Reinvestment Risk
  - Embedded Option Risk
  - Basis Risk
  - Gap or Mismatch
- (iv) There is a possibility that the company may prepay the loan or the depositor may withdraw the deposit prematurely. Due to this, the bank is exposed to:
- Reinvestment Risk
  - Embedded Option Risk
  - Basis Risk
  - Gap or Mismatch
- (v) Which of the following other risk is not associated with this transaction?
- Liquidity Risk
  - Equity Risk
  - Credit Risk
  - Operational Risk



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**SECTION - B**

**(Answer any 5 questions out of 7 questions given. Each question carries 14 marks.)**

**[5 x 14 = 70]**

- 2.** (a) Explain the Obstacles to Risk Management in Banks. **[7]**
- (b) International Bank has a Paid-up Capital of ₹ 100 Crores, Free Reserves of ₹ 300 Crores, Provisions and Contingencies Reserves of ₹ 200 Crores, Revaluation Reserve of ₹ 300 Crores, Perpetual Non-cumulative Preference Shares of ₹ 400 Crores, and Subordinated Debt of ₹ 300 Crores. The Risk-Weighted Assets for Credit and Operational Risk are ₹ 10,000 Crores and for Market Risk ₹ 4,000 Crores. Based on the above information, Identify the answer of the following questions:
- (i) What is the amount of Tier-1 Capital?
- (ii) What is the amount of Tier-2 capital?
- (iii) What is the amount of capital fund?
- (iv) What is the capital adequacy ratio of the bank?
- (v) What is the amount of minimum capital to support credit and operational risk?
- (vi) What is the amount of minimum Tier 1 and Tier 2 to support the Credit and Operational Risk?
- (vii) What is the amount of Tier-1 Capital fund, to support Market Risk?
- (viii) What is the amount of Tier-2 capital fund, to support Market Risk **[7]**
- 3.** (a) Discuss the “Principles for Sound Liquidity Risk Management and Supervision” published by the Basel Committee on Banking Supervision (BCBS) in September 2008. **[7]**
- (b) Analyze the Loan repudiation & loan rescheduling. Discuss the reasons why it is easier to reschedule debt in the form of bank loans than bonds, especially in the context of post-war lending in international financial markets. **[7]**
- 4.** (a) Demonstrate the types of letter of credit. **[7]**
- (b) International Banks provided following information about its-NPA account as on Mar 31, 2024.
- Total loans ₹ 40,000 Crores.
- Standard Accounts ₹38,000 Crores including Direct Agriculture and SME loans of ₹10,000 Crores.
- Sub-standard ₹ 800 Crores and out of which unsecured Sub-standard ₹200 Crores.
- Doubtful up to 1 Year ₹ 800 Crores and Doubtful above 1 year up to 3 years ₹200 Crores and Doubtful above 3 Years ₹120 Crores and Loss Accounts ₹ 80 Crores.
- All doubtful loans are fully secured.



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Based on the above information calculate the following:

- (i) Provision on general accounts.
  - (ii) The amount of provision on sub-standard loan accounts.
  - (iii) The amount of provision on doubtful loan accounts. [7]
- 5.** (a) International Bank has paid up capital of ₹400 Crores, free reserves of ₹1200 Crores, provisions and contingencies reserves ₹800 Crores, Revaluation Reserve of ₹1200 Crores, Perpetual non-Cumulative Preference Shares of ₹1600 Crores, and Subordinated Debt of ₹1200 Crores. The Risk Weighted Assets for Credit and Operational Risk are ₹40,000 Crores and for-Market Risk ₹16,000 Crores. Based on the above information, calculate the following:
- (i) The amount of Tier-1 capital.
  - (ii) The amount of Tier-2 capital.
  - (iii) The capital adequacy ratio of the bank. [7]
- (b) Explain the Features of Insurance. [7]
- 6.** (a) Discuss the disqualifications of an Individual Insurance Agent. [7]
- (b) Discuss the Types of Postal Life Insurance Schemes. [7]
- 7.** (a) Examine the three major risk groups that are important to non-life insurance companies. [7]
- (b) Demonstrate the benefits to managing risks in Insurance. [7]
- 8.** (a) As per RBI guidelines on ALM, Capital and Reserves are to be placed in over 5 Years' Bucket, Savings Bank and Current Deposits may be classified into volatile and core portions. Savings Bank (10%) and Current (15%) Deposits are generally withdrawable on demand. This portion may be treated as volatile. While the volatile portion can be placed in the time bucket for 14 days, the Core portion may be placed in over 1-3 Years bucket. The term deposits are to be placed respective maturity buckets.
- Capital: ₹ 1,180 Crores.  
Reserves: ₹ 12,000 Crores.  
Current account: ₹ 1,000 Crores.  
Saving Bank ₹ 4,000 Crores.  
Term deposits 1-month maturity bucket: ₹ 400 Crores.  
1 to less than 3 months maturity bucket: ₹ 800 Crores.  
3 months to less than 6 months maturity bucket: ₹ 1,200 Crores.



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6 months to less than 12 months maturity bucket: ₹ 2,000 Crores.  
1 year to less than 3 years maturity bucket: ₹ 1,200 Crores.  
3 years to less than 5 years maturity bucket: ₹ 600 Crores.  
And Above 5 years maturity bucket: ₹ 800 Crores.  
Borrowing from RBI: ₹ 400 Crores.

Based on the given information, you are required to calculate:

- (i) the amount of current account deposit that can be placed in 14 days bucket.
- (ii) the amount of saving bank deposit that can be placed in a 1-3 years bucket.
- (iii) the total amount of term deposit that will be placed in various maturity buckets up to less than 12 months. [7]

- (b) The Term, whole life, endowment, annuity policies or the combination of policies are available in the market. The best policy is the one that best meets your financial needs. You have to select the policy according to your needs.

Inspect the suitable life insurance policies for the given situations:

- (i) You are at the age of 25. You just joined an organization. You are recently married. Now you cannot spend more on life insurance.
- (ii) You are the only earning member in your family. You purchased a flat by taking a loan from housing finance. As long as you are there you can pay EMIs regularly. You want to retain the house for your family members even in your absence.
- (iii) You are at the beginning of career; you want to combine both insurance and saving. But the combination of this saving and insurance is costly. Right now, you cannot invest much, having dependents and you want to invest later after settling in the career. [7]