



FINAL EXAMINATION **SET - 2**
MODEL QUESTION PAPER **TERM – DECEMBER 2024**
PAPER – 20B **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:** **[10x2 = 20]**
- (i) The risk that arises from the possibility of non-payment of loans by the borrowers is known as-
- Credit Risk
 - Operational Risk
 - Market Risk
 - Liquidity Risk
- (ii) _____ risk is the potential loss due to changes in the value of a bank's assets or liabilities resulting from exchange rate fluctuations.
- Interest rate
 - Equity.
 - Foreign exchange.
 - Commodity.
- (iii) To hedge the interest rate risk on \$4 million of Treasury bonds with \$100,000 futures contracts, you would need to purchase-
- 4 contracts
 - 20 contracts
 - 25 contracts
 - 40 contracts
- (iv) The model that combines five financial ratios using reported accounting information and equity values to produce an objective measure of borrower's financial health is_____.
- Altman's Z Score.
 - 'Credit Metrics'.
 - Credit Risk+.
 - None of the above.
- (v) Which product offered by insurance companies that, unlike a pure insurance policy, gives investors both insurance and investment under a single integrated plan?
- Micro Insurance Plans
 - Term Insurance Plans
 - Endowment Plans
 - Unit-linked insurance plan
- (vi) When was life insurance sector nationalized?
- 1952
 - 1956
 - 1986
 - 1982



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- (vii) Insurance covers:
- Protect assets
 - Prevents loss
 - Reduces the impact of loss
 - Insurances immortality
- (viii) The _____ is formed with four subsidiary companies.
- Life insurance Corporation of India
 - ICICI Prudential Life Insurance Company
 - General Insurance Corporation of India
 - Bajaj Allianz General Insurance Company
- (ix) _____ risks happen within a stable environment and are constant over an observed period of time.
- Speculative
 - Pure
 - Dynamic
 - Static
- (x) _____ policy matures on the assured death or on his attainment of a particular age whichever occurs earlier.
- Endowment
 - Money back
 - Joint life
 - Single premium
- (b) **Based on the following case study, you are required to answer the questions no. (i) to (v) [5x2=10]**
- International Bank has come out with a policy for its branches for acceptance of deposits and granting of advances. its branches have taken deposits and allowed loans as under:
- (i) One of its branches accepted a deposit of ₹10 Lakhs, which is to double in 10 years. These funds have been invested by the bank in a 3 Years Bond carrying an interest rate of 13%. Which of the following kind of risks the bank is facing?
- Yield Curve Risk.
 - Embedded Options Risk.
 - Basis Risk.
 - Reinvestment Risk.
- (ii) The deposits, as well as advances, are linked by the bank to the floating rate. The bank has been facing:
- Real Interest Rate Risk.
 - Basis Risk.
 - Re-investment Risk.
 - Volatility Risk.
- (iii) A branch has given a loan out of deposits at a floating rate. The rate of interest on deposit has been



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linked by the bank with 91 days treasury bill rate and for the loan, it is linked to 364 days treasury bill rate. The risk from such a situation is called:

- a. Gap or Mismatch Risk.
 - b. Interest Risk.
 - c. Yield Curve Risk.
 - d. Basis Risk.
- (iv) The bank has advised its branches that while sanctioning a term loan, they must put a condition that premature payment will not be accepted in any circumstances. By putting this condition, the bank has avoided which type of interest rate risk?
- a. Yield Curve Risk.
 - b. Embedded Option Risk
 - c. Mismatch Risk.
 - d. Basis Risk.
- (v) The depositors at times, tend to withdraw the deposits before maturity, which leads to:
- a. Yield Curve Risk.
 - b. Embedded Options Risk.
 - c. Basis Risk.
 - d. Reinvestment Risk.

SECTION-B

(Answer any five questions out of seven questions given. Each question carries 14 marks.)

[5x14 = 70]

2. (a) Explain the broad parameters of “Risk Management Function” which Top Management should consider in the Banking Sector. [7]
(b) Explain the different types of Market Risks. [7]
3. (a) Examine the ideal organizational setup for liquidity risk management in a bank, and analyze how strong commitment to integrating basic operations and strategic decision-making with risk management from top management contributes to its effectiveness. [7]
(b) Discuss the difference between Debt Rescheduling and Debt Repudiation. [7]
4. (a) Discuss different types of Loan commitment and the advantages and disadvantages associated with each. [7]
(b) The international Bank, provides following data regarding rate sensitive assets and liabilities of the bank as on 31st Mar 2024. The NIL spread in percentage terms for the bank is 1.5%.

Time of Buckets	Assets	Liability	Gap	Cumulative Gap
1-28 days	800	1000	-200	-200
29 Days to 3 Months	650	550	100	-100
3-6 Months	2700	3150	-450	-550
6-12 Months	450	600	-150	-700
1-3 Years	150	300	-150	-850
3-5 Years	450	200	250	-600



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Over 5 Years	1000	200	800	200
Non-sensitive	300	500	-200	0
Total	6500	6500	0	0

Based on the above information, calculate the following:

1. The likely impact on the NII for the bank, if interest rate falls by 25 bps in the first-time bucket.
 2. The maximum percentage of non-sensitive assets a bank can have in relation to its total assets, according to the extant RBI guidelines on Asset Liability Management (ALM).
 3. The total rate sensitive assets for the banks.
 4. The impact of rising interest rates on the Net Uniform (NU) of a bank, according to interest rate scenarios. [7]
5. (a) Sniper Bank has paid up capital of ₹200 Crores, free reserves of ₹600 Crores, provisions and contingencies reserves ₹400 Crores, Revaluation Reserve of ₹600 Crores, Perpetual non-Cumulative Preference Shares of ₹800 Crores, and Subordinated Debt of ₹600 Crores. The Risk Weighted Assets for Credit and Operational Risk are ₹20,000 Crores and for-Market Risk ₹8,000 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 amount of Fund
 - (iv) The capital adequacy ratio of the bank.
 - (v) The amount of minimum capital to support Credit and Operational Risk [7]
- (b) Discuss the role of IRDAI in the insurance sector. [7]
6. (a) Discuss the need for Bancassurance and explain its benefits for both banks and customers. [7]
- (b) Explain the role, need and functions of Third Party Administrators in Health Insurance. [7]
7. (a) Explain the term Hazard. Distinguish between Moral Hazard and Physical Hazard. [7]
- (b) Discuss the provisions relating to the Appointment of Actuary in the case of:
- (i) Life Insurance
 - (ii) General Insurance [7]
8. (a) The Management of Bridge Bank is worried about the movement of interest rates across the globe and its impact on the financial health of the industry to which it belongs. In order to know the sensitivity of interest rates and its impact, the Management has approached you with the following details relating to its Balance sheet as March 31, 2024:
- | | |
|----------------------|------------------|
| Capital | ₹4,000 Crores |
| Reserves | ₹24,000 Crores |
| Saving Bank Accounts | ₹12,000 Crores |
| Term Deposits | ₹1,20,000 Crores |
| Borrowing from RBI | ₹12,000 Crores |
| Cash Balances | ₹27,000 Crores |



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Balances with other Banks	₹60,000 Crores
Investment in Securities	₹60,000 Crores
Bills Payable	₹8,000 Crores
Cash Credit	₹80,000 Crores
Term Loan	₹80,000 Crores and
Fixed Assets	₹12,400 Crores
Total Assets and Total Liabilities	₹4,00,000 Crores.

The term loans have a fixed rate of interest.

As a Management Accountant, you are tasked with creating a detailed report for management, addressing the following points based on the provided information:

- (i) Determine the value of interest-rate-sensitive assets.
- (ii) Assess the amount of interest rate sensitive liabilities.
- (iii) Identify the magnitude and nature of the gap between rate-sensitive assets and liabilities in this scenario. [7]

- (b) M/s NG Ltd. is engaged in the manufacture and sale of metalized and coated films and papers. The company is planning to start a new manufacturing facility for which project planning has already begun. The project team is working day and night to procure land, financial arrangements, procuring orders and procurement of machinery from various places, storing machinery purchased and delivered, etc. The company agreed to purchase one Machinery from M/s GV Limited, England for a total value of ₹ 5 lakhs. The machinery purchased was to be installed at the company's Plant at Jammu and to ensure, secured and safe delivery, the company took a marine cargo (Specific Voyage Policy) for a total assured sum of ₹500 lakhs against any loss/damage occurring to the machinery during transit from Port to Jammu. The company paid the insurance premium due, to complete the contract. NG Ltd. bought the same policy from another insurer also for the same sum insured and on almost the same terms and conditions. The machinery had arrived at Mumbai Port and was delivered to the petitioner's warehouse at Jammu. However, on opening the packed cases, it transpired that the machinery had got damaged during transit. Both the diffusion pumps of the vacuum metallizer had cracked and the elbow of one of the pumps had bent and was damaged beyond repair. Consequently, insurers were informed about the damage and also sought for surveying assessment of loss estimated at ₹50 lakhs.

Answer the following questions considering the above:

1. Is it possible that NG Ltd. can take multiple marine insurance policies for the same cargo? In insurance terminology, what do we call NG Ltd.?
2. Discuss the admissibility of the claim and which insurer will bear the loss?
3. Do you think any insurance product covers the project before it starts operations? Discuss. [7]