



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

**SET 2**  
**TERM – JUNE 2025**  
**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. Choose the correct option:**

**[15×2 = 30]**

- (a) i. Operational Risk is the risk of -----.
- When borrowers or counterparties fail to meet contractual obligations.
  - The unpredictability of equity markets, commodity prices, interest rates, and credit spreads.
  - Loss due to errors, interruptions, or damages caused by people, systems, or processes.
  - All of the above
- ii. \_\_\_\_\_ risk arises because the financial system is one intricate and connected network.
- Credit
  - Operational
  - Market Risk
  - Systemic
- iii. Zero Coupon Bond Makes
- No Coupon Payment
  - Interest Payment Every Month
  - Is Not Traded
  - Has No Maturity Date
- iv. Select the expanded form of SA as commonly used in life insurance
- Sum Assured
  - Surrender of Assurance
  - Supplementary Assurance
  - Stamp Act
- v. Changes in interest rates also affect the underlying value of the bank's \_\_\_\_\_.
- Assets.
  - Liabilities.
  - Assets, Liabilities.
  - None of the above.
- vi. When the amount for which a subject matter is insured is more than its actual value, it is called \_\_\_\_\_
- Cover note
  - Reinsurance
  - Co-insurance
  - Double Insurance



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- vii.** Risk retention means-----
- Saving money to pay for the losses
  - Accepting and agreeing to finance the loss oneself
  - Not taking up any activity which is risky
  - Insuring the risk
- viii.** \_\_\_\_\_ is the most famous tool of risk management
- Certainty risk
  - Insurance
  - Loss prevention
  - Uncertainty risk
- ix.** Which of these is not an element of life insurance?
- Grace period
  - Nomination and assignment
  - Policyholder
  - Paid-up value
- x.** An insurance agent represents the \_\_\_\_\_.
- Insured
  - Insurer
  - Government
  - Adjustment bureau

**(b) Based on the following case study, you are required to answer the questions no. (i) to (v) :**

International Bank has provided the following information relating to its advance portfolio as of Mar 31, 2024: Total advances of ₹ 40,000 Crores. Gross NPA 9% and Net NPA 2%. Based on this information, answer the following questions:

- i.** Considering that all the standard loan accounts represent general advances, what is the amount of provision for standard loan accounts:
- ₹ 160 Crores.
  - ₹ 151.90 Crores.
  - ₹ 145.60 Crores.
  - ₹ 141.50 Crores.
- ii.** What is the provision on NPA accounts?
- ₹ 3600 Crores
  - ₹ 3200 Crores.
  - ₹ 2800 Crores.
  - Incomplete information. Cannot be calculated



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- iii. What is the total amount of provisions on total advances, including the standard accounts?
- ₹ 3612.30 Crores.
  - ₹ 2945.60 Crores.
  - ₹ 2840.20 Crores.
  - Incomplete information. Cannot be calculated
- iv. What is the amount of gross NPA?
- ₹ 4000 Crores.
  - ₹ 3600 Crores.
  - ₹ 3200 Crores.
  - ₹ 2800 Crores.
- v. What is the amount of net NPA?
- ₹ 800 Crores.
  - ₹ 1000 Crores.
  - ₹ 1200 Crores.
  - Incomplete information

**Section – B**

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

[5 x 14 = 70]

2. (a) Explain the various benefits provided by risk management? [7]
- (b) Examine the concept of Masala Bond and discuss its Benefits. [7]
3. (a) Discuss the types of Credit Risk and Examine the Factors Affecting Credit Risk Modelling. [7]
- (b) Discuss the difference between Debt Rescheduling and Debt Repudiation. [7]
4. (a) Analyze the concept of Operational Risk and examine the types of Operational Risk as identified by Basel Committee. [7]
- (b) Global Trust Bank reported total advances amounting to ₹50,000 crores as of March 31, 2024. The bank's Gross Non-Performing Assets (NPA) were recorded at 8%, while the Net NPA stood at 3%. This scenario suggests that a considerable portion of the bank's portfolio is under stress, potentially affecting profitability and liquidity. To address these challenges, the bank's management must implement strong recovery measures and enhance credit appraisal standards to reduce risks and improve asset quality. Based on this information:
- Given that all the standard loan accounts are general advances, Calculate the amount of provision required for standard loan accounts?
  - Calculate the amount of provision required for NPA accounts?



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- (iii) Calculate the total amount of provisions for all advances, including the standard accounts?
- (iv) Calculate the total amount of gross and net NPA?
- (v) Calculate the provision coverage ratio for NPA?
- (vi) Calculate the minimum amount of provision required to meet a Provision Coverage Ratio (PCR) of 70%? [7]
5. (a) XYZ Bank has paid up capital of ₹300 Crores, free reserves of ₹900 Crores, provisions and contingencies reserves ₹500 Crores, Revaluation Reserve of ₹700 Crores, Perpetual non-cumulative preference shares of ₹900 Crores, and Subordinated Debt of ₹700 Crores. The Risk Weighted Assets for Credit and Operational Risk are ₹25,000 Crores and for-Market Risk ₹10,000 Crores.  
Based on the above information, calculate the following:
1. The amount of Tier-1 capital.
  2. The amount of Tier-2 capital.
  3. The amount of Fund
  4. The capital adequacy ratio of the bank
  5. The amount of minimum capital to support Credit and Operational Risk.
  6. The amount of minimum Tier 1 and Tier 2 to support the credit and operational risk?
  7. The amount of Tier-1 capital fund, to support Market Risk?
  8. The amount of Tier-2 capital fund, to support Market Risk? [7]
- (b) Explain why are Indian insurance companies important for the country's economic development? [7]
6. (a) Examine the Duties and Responsibilities of a Surveyor and Loss Assessor. [7]
- (b) Examine the Solvency Margins of Life Insurers. Discuss why is it needed and How is the solvency ratio worked out? [7]
7. (a) Examine the Five steps to Information Technology Risk Management for Insurance Companies [7]
- (b) Examine the Benefits of Risk management. Discuss the Risk Management Strategy [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   |
| Balances with other Banks | ₹60,000 Crores   |
| Investment in Securities  | ₹60,000 Crores   |



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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) Evaluate 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)** Mr. R purchased a bus by taking a loan from M/s. ABC Limited. The bus was being used as private service vehicle and not as a public transport vehicle. It was insured under a comprehensive insurance policy issued by M/s. XYZ Insurance Limited. The bus met with an accident, for which insurance was claimed.
- The insurance company appointed its surveyor, who assessed the loss at ₹1,26,500. However, the insurance company deducted ₹33,125 from the assessed amount on the ground that the driver did not have an endorsement on his licence to drive a transport vehicle. Even this amount was not paid to Mr. R, but was paid directly to the Finance Company.
- Advise:
- (i) Was the insurance company right in deducting the amount of ₹33,125 from the claim amount? Justify your answer. What is the course of action available to Mr. R?
  - (ii) Is it right on the part of the insurance company to pay the claim amount directly to the Finance Company and not to the insured? Justify your answer. [7]