FINAL EXAMINATION **SET 1**

MODEL QUESTION PAPER **TERM – JUNE 2025**

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. Choose the correct option: **[15×2 = 30]**

(a) i. Reinvestment Risk Exists

a. For A Bond with Call Option
b. For A Bond with Coupon Rate
c. For A Bond with A Put Option
d. For A Bond with Hold Option

ii. What is a desirable Provision Coverage Ratio (PCR) for a bank?

a. Above 50%
b. Below 20%
c. Above 70%
d. Below 30%

iii. Financial distress can be best described by which of the following situations in which the firm is forced to take corrective action?

a. Cash payments are delayed to creditors.
b. The market value of the stock declines by 10%.
c. The firm's operating cash flow are insufficient to pay current obligations.
d. Cash distributions are eliminated because the board of directors considers the surplus account to be low.

iv. "Payments credited to the wrong account" is an example of which Risk?

a. Credit Risk.
b. Operational Risk.
c. Market Risk.
d. Liquidity Risk.

v. Pure risk was grouped

a. Property Risk
b. Personal Risk
c. Liability risk
d. All the above

vi. What is the distribution fee to MISP for vehicles other than 2-wheelers, if directly engaged by the insurer:

a. 22.5% of Own Damage portion.
b. 19.5% of Own Damage portion
c. 19.5% of Total Premium
d. 22.5% of Total Premium.

vii. What is the minimum sum assured for the Anticipated Endowment Assurance (Sumangal) policy?

a. ₹ 50,000
b. ₹ 20,000
c. ₹ 30,000
d. ₹ 10,000

viii. Under which type of reinsurance is the ceding company protected if its loss ratio exceeds a predetermined threshold.

a. Excess of Loss Ratio Treaty Reinsurance;
b. Excess of Loss Treaty Reinsurance;
c. Pools Treaty Reinsurance;
d. Surplus Treaty Reinsurance;

ix. ______ is a whole life policy that insures two lives with the proceeds payable on the second (later) death.

a. Group life insurance
b. Joint life insurance
c. Prepaid insurance
d. Survivorship life insurance policy

x. Which of the following method reduces the chance of loss to zero?

a. Risk Transferring
b. Risk retention
c. Risk avoidance
d. Risk reduction

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

International 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.

1. What is the amount of Tier-1 capital?

a. ₹ 1,600 Crores
b. ₹ 1,500 Crores
c. ₹ 1,800 Crores
d. ₹ 1,220 Crores

2. Calculate the amount of Tier-2 capital?
   a. ₹ 1,800 Crores
   b. ₹ 1,600 Crores
   c. ₹ 1,220 Crores
   d. ₹ 1,500 Crores

3. What is the capital adequacy ratio of the bank?
   a. ₹ 9%
   b. ₹ 9.65%
   c. ₹ 10.05%
   d. ₹ 10.07%

4. What is the amount of Tier-1 capital fund, to support Market Risk?
   a. ₹ 700 Crores
   b. ₹ 900 Crores
   c. ₹ 500 Crores
   d. ₹ 370 Crores

5. What is the amount of Tier-2 capital fund, to support Market Risk?
   a. ₹ 900 Crores
   b. ₹ 320 Crores
   c. ₹ 700 Crores
   d. ₹ 500 Crores

Section – B

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

[5 x 14 = 70]

2. (a) Identify the primary obstacles to implementing risk management practice in banks. [7]

   (b) Explain the concept of junk bond and discuss it pros and cons. [7]

3. (a) Critically assess the steps taken by financial institutions to manage and reduce Non-Performing Assets (NPA). [7]

   (b) Demonstrate how a company can identify early warning signs of potential bankruptcy and outline the measures it can take to reduce insolvency risk. [7]

4. (a) Discuss the process involved in issuing Bank Guarantees and examine its types [7]

   (b) International Banks provided following information about its-NPA account as on Mar 31, 2022.

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.
Based on the above information calculate the following:

a. Provision on general accounts.
b. The amount of provision on sub-standard loan accounts.
c. The amount of provision on doubtful loan accounts. [7]

5. (a) Aspire Bank has paid up capital of ₹300 Crores, free reserves of ₹800 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. What is the amount of minimum Tier 1 and Tier 2 to support the credit and operational risk?
7. What is the amount of Tier-1 capital fund, to support Market Risk?
8. What is the amount of Tier-2 capital fund, to support Market Risk? [7]

(b) Identify the role of the Insurance Ombudsman in India, and how can policyholders utilize this service to address grievances with their insurance companies? [7]

6. (a) Describe the eligibility criteria for an individual to become a Point of Sales Person (PoSP) in India. [7]

(b) Interpret the key benefits of investing in Postal Life Insurance. [7]

7. (a) Examine what perils are in the context of insurance and how they lead to risk. [7]

(b) Discuss the provisions relating to the Appointment of Actuary in the case of:
(i) Life Insurance
(ii) General 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 plain ced 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
6 months to less than 12 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
Above 5 years maturity bucket.	800 Crores
Borrowing from RBI	₹400 Crores

Based on the given information, answer the following questions:

a. Calculate the amount of current account deposit that can be placed in 14 days bucket?

b. Calculate the amount of saving bank deposit that can be placed in 14 days bucket?

c. Calculate the amount of current account deposit that can be placed in a 1-3 years bucket?

d. Calculate the amount of saving bank deposit that can be placed in a 1-3 years bucket?

e. Calculate the total amount of term deposit that will be placed in various maturity buckets up to less than 12 months? [7]

(b) Rohit proposed to purchase Life Insurance Policy (Unit Linked) from ABC Insurance Co. Ltd. The company asked him to get his medical done for which expenses were borne by the proposed insurer. After receiving the medical reports, the insurer accepted the proposal, and consequently, the policy documents were issued. Policy documents contained some wrong information like the name of the insured, date of birth, and details of the riders attached to the property. Rohit got annoyed and decided to cancel the policy and claim the refund of the premium paid by him.

(i) List the rules of Interpretation of a policy.

(ii) Calculate the refund amount considering the given information:

(iii) Sum Insured: ₹100.00 lakh

(iv) Premium Paid: ₹1,00,000.00

(v) Units allotted at the time of Policy Issuance: 8,000 @ ₹10.00 per unit

(vi) Medical Expenses: ₹5,500

(vii) The proportionate Risk premium for the cover period: ₹ 12,500

(viii) Stamp Duty Charges: ₹800

(ix) Fund Manager Charges: ₹ 1,200

(x) Unit Price as of the date of cancellation: ₹9.50 per unit. [7]