



FINAL EXAMINATION
MODEL QUESTION PAPER
PAPER – 20B

SET 2
TERM – JUNE 2023

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.
Where considered necessary, suitable assumptions may be made and
clearly indicated in the answer.

SECTION – A : Risk Management in Banking

Answer Question No. 1 and 6 are compulsory; Answer any three from
Question No. 2, 3, 4 & 5.

1. (a) **Choose the correct alternative. Provide justification in each case. 1 mark is allotted for correct selection and 1 mark for the justification.: [8 × 2 = 16]**
1. Legal Risk is known as ----- . Provide a brief reason for your answer.
 - a. When the actions can lead to the entire financial system coming to a standstill.
 - b. When there is a financial loss to bank arising from legal suits filed against the bank or by a bank for applying a law wrongly.
 - c. When a bank chooses the wrong strategy or follow a long-term business strategy which might lead to its failure.
 - d. When bank's image and public standing is in doubt and leads to public's loss of confidence in a bank.
 2. _____ Risk is the potential loss due to changes in the value of a bank's assets or liabilities resulting from exchange rate fluctuations. Justify your selection.
 - a. Interest Rate.
 - b. Equity.
 - c. Foreign Exchange.
 - d. Commodity.
 3. Which of the following is known as the third pillar of Basel-II accord and why?
 - a. Minimum capital requirement.
 - b. Supervisory review process.
 - c. Standard approach.
 - d. Market Discipline.



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4. The minimum total capital ratio under Basel-III is % of RWA. That is _____. Provide a suitable comment for your answer.
 - a. 2.5%.
 - b. 3.5%.
 - c. 9%.
 - d. 10.5%.
 5. With reference to Basel III how much capital conservation buffer are bank required to maintain? Provide the reason.
 - a) 3.5%.
 - b) 2.5%.
 - c) 7.5%.
 - d) 1.5%.
 6. Which one is not under the three pillars of BASEL III norms in banking industry? Provide a suitable comment.
 - a) Market Discipline.
 - b) Minimum Capital Requirement.
 - c) Risk oriented Supervision.
 - d) Supervisory Review Process.
 7. To calculate capital adequacy ratio, the banks are required to take into account which of the following risks and why?
 - a) Credit risk and operational risk.
 - b) Credit risk and market risk.
 - c) Market risk and operational risk.
 - d) Credit risk, Market Risk, Operational Risk.
 8. What is the full form of NSFR? Why is this ratio important?
 - a) Net stable fund ratio.
 - b) Net sustainable funding ratio.
 - c) Net stable funding ratio.
 - d) Net stable fundable ratio.
2. (a) Prepare a set of justification in support of the need for managing risks in commercial business organizations?
- (b) “Country risk arises when a foreign entity or a counter party, private or sovereign, is unwilling or unable to fulfill its obligations for reasons, other than the usual reasons or risks which arise in relation to all lending and investment” briefly examine and analyze the Statement with your comment. **[6+6=12]**



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3. (a) Differentiate between Gap or Mismatch Risk and Basis Risk under Interest Rate Risk of Banks.
- (b) Prepare a statement elucidating the Scope and Coverage of Capital Charge for Market Risks of Banks with a brief reason in support of your answer. [4 + 8 = 12]
4. (a) Analyze the steps to be followed by Banks for computation of the Risk Weighted Assets for Credit Risk under Standardized Approach method.
- (b) “Liquidity is a Bank’s Capacity to fund increase in assets and meet both Expected and Unexpected Cash and Collateral Obligations at reasonable cost and without incurring unacceptable losses.” Analyze the above statement for explaining the importance of liquidity risk in the banking sector. [8 + 4 = 12]
5. (a) Develop a set of approaches to be followed by banks to measure the Operational Risk.
- (b) Critically assess various types of “Off-balance Sheet Exposures” in the Banking Industry. [4 + 8 = 12]
6. An exposure of ₹ 100 lakhs is backed by financial collateral in the form of NSCs of ₹ 30 lakhs and eligible A+ Debt Securities Issued by others of ₹ 50 lakhs. The residual tenor of the exposure is 3 years and the residual maturity of both the collaterals is 3 years. There is no maturity mismatch.
- The weights of NSCs and A+ debt security in the basket of assets is 30% and 50% respectively. Based on residual maturity hair cut applicable to NSCs is 2% and that to A+ debt security is 6%.
- Create the Net Exposure Ranking for Capital after showing the details of calculation you have resorted for creating such a rank. [8]



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SECTION – B : Risk Management in Insurance

Answer Question No. 7 and 11 are compulsory; Answer any two from Question No. 8, 9 & 10.

7. (i) What is the similarity between insurance and wagering contract? Please provide justification for your selection.
- Both are legally enforceable.
 - Both types of contracts need the existence of insurable interest.
 - Both types of contracts assess the possibility of losses.
 - Both types of contracts follow the principle of utmost good faith.
- (ii) Subrogation in insurance means _____. Please provide justification for your selection
- Losses must be reported in time to the insurance company
 - Losses must be considered legally binding
 - The insured must pay premiums before losses can be paid
 - One party is being substituted for another in terms of legal rights [2×2=4]
8. (a) Prepare a list of circumstances under which the life insurer may apply, to pay the amount into the court to obtain a satisfactory discharge for the payment of amount payable under the terms of the policy or otherwise.
- (b) (i) Prepare a list of various courses of action available to the underwriter when a proposal for insurance is received?
- (ii) Examine the possibility whether an underwriter can make any modifications while accepting a proposal of insurance? If a person wants to assign the policy to another person without a valid consideration, what conditions must be fulfilled for an assignment to be valid? [6 + (4+4) = 14]
9. (a) Distinguish between “Agent” and “Broker”. What actions does the Regulator take when there is a breach in their code of conduct?
- (b) Compare and contrast between surrender value and paid-up value. Which is a better option for a policyholder to exercise, if he wants to discontinue the policy? Provide justification in support of your answer. [6 + 8 = 14]
10. (a) Critically assess the difference between ‘Risk’ and ‘Uncertainty’ with examples.
- (b) Examine the features of a hazard? Analyze different types of hazards. [6 + 8 = 14]



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11. Mr. Deepak, a resident of Vijayawada, Andhra Pradesh, after getting his first job bought new car on 1st Dec. 2022 for ₹ 10 lakhs. He got the same insured from the leading insurer after satisfying himself about the claim settlement ratio and other factors. After one year, renewal premium was paid on time for continuing the policy. One fine evening, after returning from office, he parked the car in front of his house and went inside. His kids were waiting for him to come and take them for a ride. When the happy family came outside the house, they were shocked to see that the car was not there. Everything kept in the car like mobile cover, toys of kids, important documents, duplicate keys of house and car, driving licence etc. also went missing. Immediately they informed the local police station and started searching nearby areas and enquiring from neighbors to get some information. But all in vain and the happiness got converted into sadness. Mr. Deepak filed the first information report and informed the insurance company about the car lost. Insurance Company asked Mr. Deepak to submit all the documents for claim processing. Considering the given circumstances:
- (i) Design a set of steps to be followed by Mr. Deepak to process and submit his claim. Create a list of documents/evidence to be submitted by him for hazardless processing of his claim by the insurance company and acceptance thereof in full disbursement of the same.
 - (ii) Critically assess the Admissibility of the claim.
 - (iii) Formulate the resolution methodology that follows in case any dispute arises.

[4+2+2= 8]