

**Kadi Sarva Vishwavidyalaya**

**Term End Examination: MBA Semester IV (Batch 2012-2014)**

**Banking and Insurance (FS 423)**

**Date: 15<sup>th</sup> May, 2014**

**Exam No.: \_\_\_\_\_**

**Marks: 40**

**Time: 1.30 pm – 4.00 pm**

**Instructions:**

Marks to the right indicate full marks to the question. Please read the question carefully before answering.

**Q1A. Answer the following:**

**8 marks (4\*2)**

- i. Define Reinvestment Deposits and Flexi Deposits
- ii. Define Mismatch Risk / Gap Risk
- iii. Discuss Personal Accident Insurance
- iv. Define ECS and NEFT.

**Q1B. RBI requires banks in India to maintain CRAR (Capital to Risk Weighted Assets Ratio) at 9%. For this discuss components of Tier 1 and Tier 2 Capital as mentioned in Basel II norms.**

**OR**

**Q1B. What are the principal duties and powers of IRDA (Insurance Regulatory Development Authority)?**

**Q2. Answer the following questions:**

**8 marks (4\*2)**

- a) In a bank's balance sheet the assets are listed in the order of most liquid assets to the least liquid assets. Explain. What does this imply for the liquidity of the bank?
- b) What will be the impact of the following on a bank's liquidity position? Give reasons for your answer.
  - i) High ratio of Cash and Bank Balances including Call money to Demand Deposits.
  - ii) Low ratio of SLR investments to the Total Investments of the bank.
  - iii) Low investments in money market instruments and other short term assets as compared to total assets of the bank.
  - iv) High ratio of total Demand Deposits to Total Assets.

**OR**



**Q2 a)** Discuss the sources and mitigation of Credit Risk and Market risk, arising in banks.

b) For a typical bank, which balance sheet accounts would be affected by the following transactions? You have to indicate at least two accounts for each transaction:

i) A opens a deposit account with Rs.1 lakh. The funds are loaned in the call money market for a week.

ii) Bank B contracts the services of its investment banking arm for its initial public offer of shares to the market. The bank plans to use these funds to make loans to long term infrastructure projects.

iii) Just as C, a residential complex promoter, pays off his loan taken from the bank for construction, D, an engineer with a multinational company, takes a home loan.

iv) Bank E raises Rs.10 lakh in the call money market to grant a 3-month overdraft to its valuable customer, F.

**Q3. Answer the following questions:**

**8 marks (4\*2)**

a) Discuss the pre-requisites for Asset-Liability Management (ALM) in banks. What should be the aspects covered in a Credit Policy of the bank, for better ALM?

b) Reserve Bank of India, in order to ensure greater transparency has adopted 90 days instead of 180 days, to classify a loan as a Non Performing Asset (NPA). Discuss. Also discuss how banks are required to classify NPAs into further categories?

**OR**

a) It has been found that Public Sector Banks in India have higher NPA as compared to Private Sector Banks. What do you think are the reasons for their high NPAs?

b) Discuss the major tasks of an Asset Liability Management Committee, and suggest management techniques to perform these tasks.

**Q4. Answer the following questions:**

**8 marks (4\*2)**

a) Discuss the features of insurance. What are the principles on which insurance is based?

b) Discuss the elements of an insurance contract.

**OR**

a) Discuss the features of Fire Insurance and Marine Insurance.

b) India has high Life Insurance penetration as compared to Asian Life Insurance penetration. But India's Non Life Insurance penetration is very low compared to other Asian countries. Discuss.

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**Q5. Read the case “The Case of Bharath Bank “ and answer the following questions:**

**8 marks (4\*2)**

- a) How does Bharath Bank manage the daily cash requirement in ATMs in Mumbai?  
Give your opinion on the efficiency of their daily cash management.
- b) Discuss the factors on which the retention limit for cash is set in branches and ATM of Bharat Bank.

### **The Case of Bharath Bank**

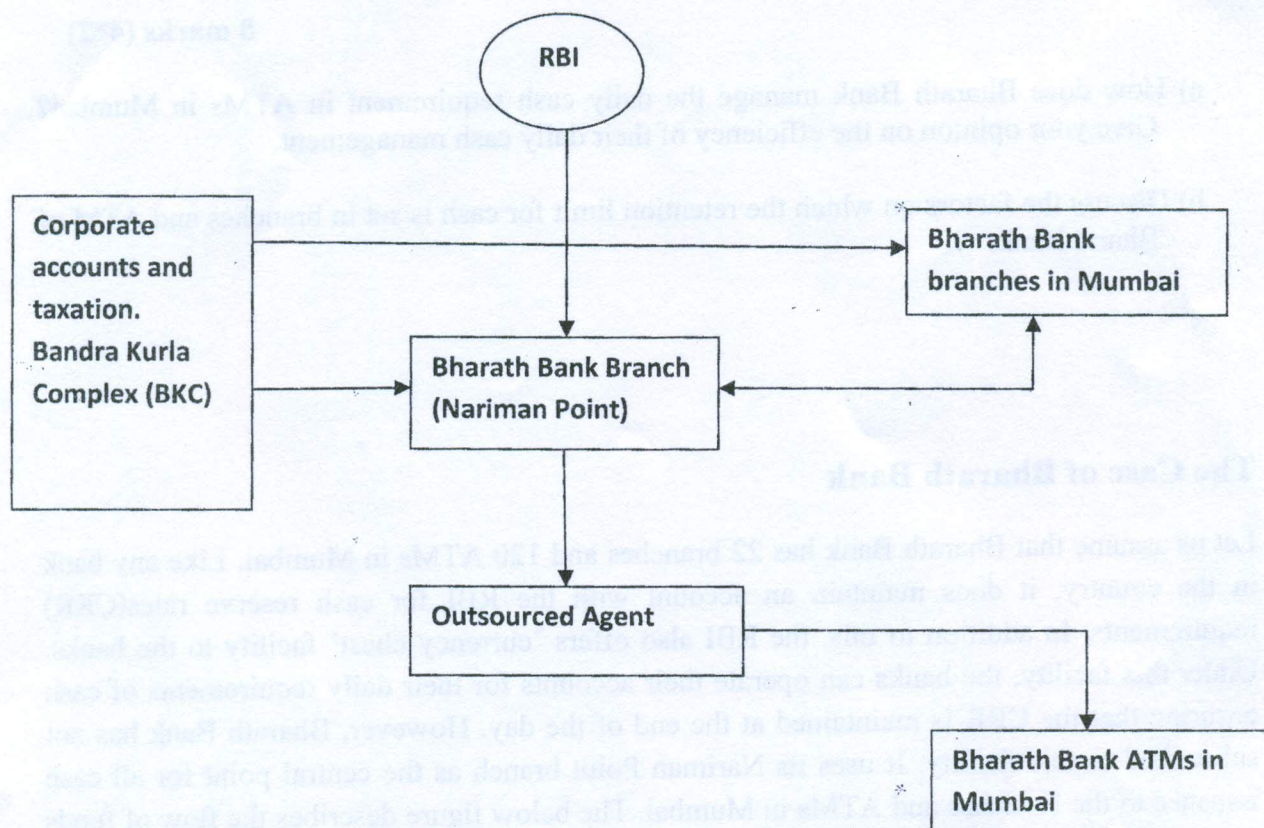
Let us assume that Bharath Bank has 22 branches and 120 ATMs in Mumbai. Like any bank in the country, it does maintain an account with the RBI for cash reserve rates(CRR) requirements. In addition to this, the RBI also offers 'currency chest' facility to the banks. Under this facility, the banks can operate their accounts for their daily requirements of cash ensuring that the CRR is maintained at the end of the day. However, Bharath Bank has not subscribed to this facility. It uses its Nariman Point branch as the central point for all cash issuance to the branches and ATMs in Mumbai. The below figure describes the flow of funds in the entire retail banking segment of the bank.

In the case of Bharath Bank, the corporate accounts and taxation department at Bandra Kurla Complex (BKC) has worked out a certain retention limit for all the branches as well as the ATMs. The factors on which such a limit is calculated by the department are as follows:

- Total Deposits of the branches
- Total Advances (amount lent to the customers)
- Branch Location
- Number of salary account holdings
- Corporate Accounts, if any
- Total receipts/payments of the branches in the last three months



### Structure of Bharath Bank ATMs and Branches in Mumbai



This figure of retention limit is shared across all the branches in Mumbai including the Nariman Point branch. Based on the retention limits as set by the bank's BKC office, the cash management centre is responsible for distributing the funds to various branches (retail outlets) and the outsourced agents for ATMs. It needs to be mentioned here that all correspondence with the RBI regarding any kind of shortfall is carried out by the Nariman Point branch. However, Bharath Bank does not have any currency chest account with the RBI as it requires immense procedural hassles and formalities. Thus, at the end of the day, all branches are notified to return the excess cash above the retention limit to the Nariman Point Branch, which remains in Bharath Bank's custody.

#### **Outsourced Agents for ATMs**

Bharath Bank has only one outsourced agent – M/s Brinks Arya, for depositing cash in their 120 ATMs across Mumbai. Unlike in Global Bank, Brinks Arya does not maintain any vault cash account i.e. it does not maintain certain cash balance/overdraft account with Bharat Bank. The outsourcing agent's account gets debited when it collects cash from the bank and it gets adjusted when the money is transferred to the ATMs.



### **Bharath Bank ATMs**

The ATM operation is coordinated by a delivery channel coordinator and it is similar to the functioning of Global Bank. The ATM switch is located at BKC and all forecasting is carried out in BKC. Bharath Bank deploys only one outsourced agent for the 120 ATMs.

### **Bharat Bank Retail Branches**

Each of the 22 retail outlets are aware of the retention limits set upon them by BKC and are also notified by the main branch at Nariman Point that any excess cash above the retention limit should be returned to the main branch.

### **The Reserve Bank of India**

The RBI is known as the banker's bank in India. This is so because the banks fulfil all their excess cash requirements by borrowing from the RBI. Most of the banks have a currency chest option wherein they are able to put in cash and withdraw it as and when required as part of its maintenance of its CRR. The RBI has already outsourced its coinage division to a player so that they can cut costs in this process



**Kadi Sarva Vishwa Vidyalaya, Gandhinagar**  
**MBA - Semester – IV – May 2015 Examination**  
**Banking and Insurance (FS 423)**

Date: 06/05/2015

Weightage: 40%

Duration: 2½ Hours

**Instructions:**

- 1 Make assumptions wherever necessary and state them clearly
- 2 Working notes must form part of your answers
3. Figures to the right indicate weightage

- Q-1 (A) Explain the following terms: 4%
1. Health Insurance
  2. NEFT
  3. Marine Insurance
  4. Paid up Value
- (B) Discuss various functions that the Reserve Bank of India play to regulate the financial sector in the country. 4%
- OR
- (B) "As per the insurance charter you cannot compel anyone to buy insurance". Explain the statement. 4%
- Q-2 (A) The Indian banking sector is transformed with the help of latest technology. Explain the various technical changes that took place in the last decade. 4%
- (B) What is meant by Asset Reconstruction? Discuss the process of asset reconstruction followed by the Asset Reconstruction Companies in India. 4%
- OR
- Q-2 (A) What risks do bank face in its operation? How do the banks in India control such kind of operational risks? 4%
- (B) What is Life insurance? What are the characteristics of life insurance? 4%
- Q-3 (A) What is Non Performing Asset? How do banks classify NPA? Discuss the various measures that banks in India take to control NPA 4%
- (B) "Insurance is a contract signed between the insurer and the insured." Why this is known as a contract? Explain the various elements that insurance contracts have. 4%
- OR
- Q-3 (A) What is the main focus of Basel II? How the risks being classified in the Basel II and the risks are managed by the banks under the Basel II accord? 4%
- (B) Classify and explain the various popular non-life insurance policies that exist in the Indian market. 4%
- Q-4 (A) Discuss the role of the banking and insurance industry of Indian in the development of Indian economy in the last decade. 4%
- (B) Differentiate between the modern and traditional clearing and settlement of banks. 4%
- OR
- Q-4 (A) Discuss the SARFESI Act and the benefits that the bank received after the implementation of this act. 4%
- (B) What is treasury management? Why is the treasury management important in the banks? 4%
- Q-5 What is the structure of Asset Liability Committee ALCO? What functions do ALCO need to undertake in the Asset Liability Management of bank? 8%

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