



**FINAL EXAMINATION
PRACTICE TEST PAPER
PAPER – 20B**

**TERM – JUNE 2026
SYLLABUS 2022**

RISK MANAGEMENT IN BANKING & INSURANCE

Time Allowed: 3 Hours

Full Marks: 100

The figures in the margin on the right side indicate full marks.

SECTION – A (Compulsory)

I. Choose the correct option:

[15 x 2 = 30]

- (i) The risk that a government may default on its debt obligation ____
- Political risk
 - Sovereign risk
 - Transfer risk
 - Transaction risk
- (ii) If you bought a long contract on financial futures, you hope that interest rates -
- rise
 - fall
 - are stable
 - fluctuate
- (iii) A transaction where financial securities are issued against the cash flow generated from a pool of assets is called-----.
- Securitization.
 - Credit Default Swaps.
 - Credit Linked Notes.
 - Total Return Swaps.
- (iv) _____ 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.
- (v) Which product offered by insurance companies that, unlike a pure insurance policy, gives investors both insurance and investment under a single integrated plan?
- Money Back Plan
 - Endowment Plans
 - Term Insurance Plans
 - Unit-linked insurance plan



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- (vi) Policy matures on the assured death or on his attainment of a particular age whichever occurs earlier
- Endowment
 - Money back
 - Joint life
 - Single premium
- (vii) Which of the following statements correctly describes an Insurance Broker?
- An Insurance Broker represents the insurer and can sell products of up to three insurance companies.
 - An Insurance Broker represents the client, is independent of insurers, and can sell products of any number of insurance companies.
 - An Insurance Broker's sales practices legally bind the insurer in all cases.
 - Only one type of Insurance Broker is recognised by regulations.
- (viii) What does the term "Out-of-pocket maximum" mean in health insurance?
- It is the maximum amount an insurer will pay for a specific benefit during a policy year.
 - It is the limit beyond which the insured must pay all medical expenses themselves.
 - It is the amount after which the insured person's payment obligation ends and the insurer pays all further covered costs.
 - It applies only to hospitalization expenses and not to other benefits.
- (ix) _____ is a whole life policy that insures two lives with the proceeds payable on the second (later) death.
- Survivorship life insurance policy
 - Group life insurance
 - Joint life insurance
 - Prepaid insurance
- (x) Subrogation means _____
- something of monetary value
 - to make good loss
 - payment of premium
 - transfer of rights of an insured to another person

(b) Based on the following case study, you are required to answer the questions no. (i) to (v) [5 x 2 = 10]

ABC Bank is managing its financial risk with a six-month repricing gap of ₹200 crore. The bank's rate-sensitive assets total ₹500 crore, while its rate-sensitive liabilities amount to 300 crore. Given the bank's expectation of rising interest rates over the next six months, the manager is focused on mitigating interest rate risk to protect profitability and manage exposure.

In parallel, Bharat Oil Ltd., an A-rated oil company has applied for a fully drawn one-year credit facility of ₹1,600 crore. The company is seeking a commitment of ₹700 crore from ABC Bank. However, the bank's credit



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portfolio management team has placed a limit of ₹150 crore, as they are concerned about the bank's significant exposure to the oil company. To address this issue, Mr. Tendulkar, a member of the bank's credit portfolio management team, proposes using a Credit Default Swap (CDS).

ABC Bank can partially insure its exposure to the ₹700 crore facility with a CDS.

In this respective situation, choose the correct option from the four alternatives given:

- (i) What is the primary benefit of using a Credit Default Swap (CDS)?
- Increases liquidity in the market
 - Reduces operational risk for banks
 - Transfers credit risk to another party
 - Eliminates all risks for the bank
- (ii) Which financial instrument can a bank use to hedge its exposure to a single company's credit risk, enabling it to provide a larger credit facility without exceeding its internal risk limits?
- Interest Rate Swap
 - Credit Default Swap.
 - Equity Swap
 - Total Return Swap
- (iii) What action is the bank manager likely to take to reduce the bank's exposure to rising interest rates?
- Increase short-term variable-rate loans
 - Convert fixed-rate liabilities to floating rates
 - Convert assets into fixed-rate loans
 - Reduce long-term debt holdings
- (iv) What happens to a bank's profitability, if interest rates rise and if it has a large gap of rate-sensitive liabilities over assets?
- Profitability decreases
 - Profitability increases
 - Profitability remains the same
 - Profitability fluctuates unpredictably
- (v) What is the primary purpose of the bank manager's actions in mitigating interest rate risk?
- To increase the bank's profitability
 - To reduce the bank's exposure to interest rate fluctuations
 - To raise additional capital for the bank
 - To improve the bank's liquidity



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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) Critically examine the ideal organizational set up for liquidity risk management in a banking institution. [7]
- (b) Discuss the concept of sovereign risk. Also, briefly examine and analyse why it is easier to reschedule debt in the form of bank loans than bonds, particularly in the context of post-war lending in international financial markets. [7]
4. (a) Discuss different types of Loan commitment and the advantages and disadvantages associated with each. [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:
- (i) Given that all the standard loan accounts are general advances, Calculate the amount of provision required for standard loan accounts?
- (ii) Calculate the amount of provision required for NPA accounts?
- (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) International Bank has paid-up capital of ₹200 crores, free reserves of ₹600 crores, provisions and contingencies reserves of ₹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 the fund
- (iv) The Capital Adequacy Ratio of the bank. [7]
- (b) Explain with example the principle of Insurable Interest. Also, explain how this principle ensures the legality of an insurance contract. [7]



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6. (a) Examine the Duties and Responsibilities of a Surveyor and Loss Assessor. [7]
- (b) Discuss a comprehensive overview of the Pradhan Mantri Jan Arogya Yojana-Ayushman Bharat Health Scheme rolled out by the Government of India in September 2018. [7]
7. (a) Examine the Five steps to Information Technology Risk Management for Insurance Companies. [7]
- (b) Examine the benefits to managing risks in 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 belong. 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 on March 31, 2025:
- Capital ₹ 4,000 crores
Reserves ₹ 24,000 crores
Current Accounts ₹ 1,20,000 crores
Saving Bank Accounts ₹ 1,20,000 crores
Term Deposits ₹1,20,000 crores
Borrowing from RBI ₹ 12,000 crores
Cash Balances ₹ 27,600 crores
Balances with other Banks ₹ 60,000 crores
Investment in Securities ₹ 60,000 crores
Bills Payable ₹ 80,000 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) Mr. Neel residing in Delhi purchased on 9th May, 2025 a Honda Car for ₹8,00,000. The vehicle was registered as DL 2CJ 8745. He, thereafter, applied for a comprehensive insurance policy with Pioneer General Insurance Co. Ltd. and after ascertaining the annual premium, issued a cheque in favor of the insurance company for ₹ 19,000 as premium for a comprehensive coverage of the vehicle for a period of twelve months commencing from 11th May, 2025. The insurance company accordingly issued Mr. Neel with a comprehensive motor policy for the period from 11th May, 2025 to 10th May, 2025.



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On presentation of the cheque issued by Mr. Neel, it was dishonoured on 14th May, 2025 on the ground "Insufficiency of Funds" and an intimation was sent to Mr. Neel by the insurance company on 16th May, 2025. Meanwhile, while returning from his office on 15th May, 2025, the vehicle that was driven by Mr. Neel met with an accident and suffered damages. A third-party walking on the road also sustained injuries and had to be hospitalised. The accident was reported by Mr. Neel to the police and an FIR was also lodged.

On the basis of the above facts, analyze the following:

- (i) Does Mr. Neel have a valid claim in respect of damage to his car DL 2CJ 8745 as a result of the above accident?
- (ii) Does the person walking on the road who sustained injuries and had to be hospitalised, have a right as third-party to claim for injury under the policy? [7]