

Indicative Model Question Paper
Professional Programme
Syllabus 2022
Banking & Insurance- Laws & Practice

Time allowed: 3 hours

Maximum marks: 100

NOTE: Answer ALL Questions

PART I

Question No. 1

Corporate Governance is an integral part of the Management Control System (MCS) which directly reflects in maintaining the image and the reputation of the company and its strategy because of global competition. Banks in the light of global image and reputation are to be very careful in ensuring their integrity in dealing with the financial aspects of their Constituents. The efforts in the field of Corporate Governance in vague since 1992 when the set of guidelines were provided by Cadbury Committee and thereafter by many other committees on the issues of Corporate Governance.

(A) Corporate Governance Issues in Banks:

In today's fast growing economies, the reputation of an organisation has much important as its market value. Added to the financial crisis, the organizations are facing governance issues which are creating reputational and other risks. To overcome these, the corporate sector is focusing on a concept called "Corporate Governance". Business ethics, Corporate Governance and Corporate Social Responsibility have become not only an integral part of the present globalised business environment, but also have changed the business model of banks and they are also enforcing such issues.

People have many rights and an attempt by any person to violate any of these right is considered unethical. Right to privacy is violated in many ways. The personal data available with researchers have led to give rise to various junk spam mails, telemarketing calls and so on. In practical situations, it is not always easy to determine whether a particular issue is ethical or unethical. However, on certain perceptions and depending upon the situations, it can be referred to as ethical or unethical. Value is the factor that distinguish an action as ethical or unethical. There are many reasons for an individual or group of individuals or corporate and others to follow ethical or unethical practices. Ethical practices would ensure better and conducive climate in workplace. We come across, unethical practices prevailing in many areas such as HR management, Marketing management, Financial management, Risk management, Production management and so on. These are the basic issues which the banks are facing in global trade now a days.

(B) Corporate Governance in Banks:

Banks play an important role in the economic development of a nation as an intermediaries in the financial sector. Banks also act as the trustees of the funds of the depositors.

Thus, for efficient functioning and control in banks, an effective Corporate Governance practices should be an integral part of bank management. Banks should have good Corporate Governance

in force which should be much more than complying with legal and regulatory requirements. The objectives of corporate governance in the banks must cover broadly:

- (1) To protect and enhance shareholders value.
- (2) To protect the interest of all other stakeholders consisting of customers, employees and society at large.
- (3) To ensure transparency and integrity in communication and to make available full, accurate, clear information to all concerned whether public or the government or any other.
- (4) To ensure accountability of the employees for work performance and in giving customer services and to achieve excellence at all the levels of their work and services.

The role of the Board of Directors, Chairman and/or CEO and Committees of the Board is not only important but crucial in governance matters. The Bank's Board of directors should meet regularly and to provide effective leadership and insight in business and functional areas. They also should monitor bank's performance of business. The Chairman and/ or CEO have the responsibility for all aspects of executive management and is accountable to the Board for the ultimate performance of the bank and for implementation of the policies laid down by the Board. A senior executive is made responsible in respect of compliance issues. Board level committees are also formed, to assist the Board of directors in working and to function effectively. These committees provide effective professional support in the conduct of Board level business in key areas and also provide inputs for taking major decisions.

(C) Reserve Bank of India and Corporate Governance in the Banking Sector:

The special nature of banking institutions necessitates a broad view of corporate governance where regulation of banking activities is required to protect depositors. Corporate governance in the banking sector is not just a formality but a dire need of society. In almost every country in the world, there is a watchdog like Reserve Bank of India (RBI) in India which monitors all the transactions and activities undertaken by the banks and regulate the business of the bank by making them to submit regular reports on various aspects related to the business undertaken and dealt. Corporate governance is needed for the bank to protect depositors interest, keep a check on money laundering, financial immoral and criminal acts and transaction of money with the terrorists. RBI in India plays leading and vital role in formulating and implementing corporate governance.

In view of the above, answer the following:

- (a) Good Corporate Governance much more than complying with legal and regulatory requirements be applied by the banks. Comment.
- (b) Elaborate the role of the Board of Directors, Chairman and/or CEO and Committees of the Board in governance matters of Bank.
- (c) State the sound corporate governance principles as outlined by the Basel Committee and also being approved by Reserve Bank of India (RBI).
- (d) Describe the corporate governance mechanism as followed by Reserve Bank of India (RBI) for governing the banks operating in India.

(5 marks each)

Question No. 2

XYZ Bank Branch had issued a Bank Guarantee of Rs. 50 lakh on behalf of a Construction Company in favour of Oil Authority of India. The period of bank guarantee was 3 years with an additional provision that the beneficiary could invoke the bank guarantee within 3 months after the expiry of 3 years period of the bank guarantee. After 3 years, the bank guarantee was invoked by Oil Authority of India. The customer of the bank has filed a claim in the Court requesting for issue of injunction order on the ground that the contract was completed as per the terms of guarantee and the beneficiary has invoked the guarantee on flimsy grounds, and that in fact, the officials of Oil Authority were demanding money from the customer. The Court however did not accept the contention of the construction company and refused to issue stay orders restraining the banks from making payment of the bank guarantees on invocation by the beneficiary.

In view of the above, answer the following:

- (a) Banks issue different types of guarantees on behalf of their customers. Briefly explain the nature of each type of bank guarantee.
- (b) State in brief the precautions to be taken by the banks while issuing a bank guarantee.
- (c) Can the bank in a guarantee issued by it restrict the claim period so as to avoid its liability? Discuss.

(5 marks each)

Attempt all part of either Q. No. 3 or Q. No. 3A

Question No. 3

Mr. Swamy is maintaining a Savings Bank Account at XYZ Branch of ABC Bank. He always maintains sufficient balance in his account. A cheque dated 31st March, 2023 for Rs. 19,500 drawn by him, has been paid by the branch on 5th April, 2023. He issued one cheque for Rs. 18,000 for the payment of medical insurance premium. The medical insurance cheque was dishonored due to insufficient funds. Mr. Swamy got message for non-payment of medical insurance premium. Mr. Swamy has approached his bank and got updated his passbook. Then he came to know that a debit of Rs. 19,500 was shown in his account. He pointed out that he had issued two cheques, one for Rs.500 and another for Rs. 18,000. Only one cheque for Rs. 19,500 was debited from his saving bank account was not issued by hm. When the cheque of Rs. 19,500 was examined under Ultraviolet Ray Lamp, it was transpired that the name of the Payee, Amount and Date of cheque were chemically altered.

In view of the above, answer the following:

- (a) Mr. Swamy alleged negligence on the part of the XYZ Branch of ABC Bank. Whether the Bank action of debiting the account with Rs. 19,500 is correct?
- (b) Cheque is an instrument used for almost all banking transactions. Explain the different type of cheques along with their legal implications.
- (c) Dishonour of a cheque is a criminal offence. Explain the relevant sections/provisions of Negotiable Instrument Act, 1881.

(5 marks each)

OR (Alternate question to Q. No. 3)

Question No. 3A

Ms. Rashmi, after completed Bachelor's Degree in Dental Surgery, want to open a Dental Clinic. For establishing dental clinic, she needs some funds for purchasing of necessary equipment and furniture and other establishment. The estimated amount may be around Rs. 7 lakh for Dental Clinic. She somewhere heard about the MUDRA launched by the government. She approached the Bank branch to avail the credit facility.

In view of the above, answer the following:

- (i) Explain MUDRA scheme in details.
- (ii) How the Bank branch will consider the proposal of Ms. Rashmi and under which scheme she can be financed?
- (iii) Explain the benefits of the MUDRA Scheme available for a new entrepreneur.

(5 marks each)

PART II

Question No.4

Mr. Rohan Kumar, holder of a life insurance policy for a sum assured of Rs.50 lakh, died in an accident. The accident was widely reported in the press. Mrs. Seema Kumar, his wife, was the nominee under the policy. Mr. Nayar, the agent who had canvassed the insurance, met Mr. Ajay Sharma, the Regional Vice-President of the insurance company and requested for a prompt settlement of the claim assuring that he will get the documentation completed by Mrs. Seema Kumar. Nayar was a leading agent of the company. Mr. Ajay Sharma took an intimation letter from Nayar and instructed the accounts department to handover the receipted voucher and claim cheque to Mr. Nayar. Mr. Ajay Sharma, however, forgot to inform his action to Mr. Vinay Verma the claims officer of the insurance company.

Nayar handed over the cheque, voucher and claim form to Mrs. Seema Kumar stating that he will collect the documents next day. Since he did not turn up the next day, she mailed the claim form, discharged voucher and the policy bond to the insurance company. Mr. Vinay Verma, who received the documents, not knowing the earlier action of Mr. Tandon, approved the claim and arranged for a cheque for Rs.50 lakh to be mailed to Mrs. Seema Kumar.

The insurance company wrote to Nayar intimating that the amount of Rs.50 lakh will be recovered in installments from his agency commission. Nayar replied that such an action will be in violation of the agency law and agreement.

In view of the above, answer the following:

- (a) Can the Insurance company legally recover the money from Mr. Nayar, the insurance agent?
- (b) Can the Insurance company legally recover the money from Mrs. Seema Kumar?

- (c) Can the company legally recover the money from the children of Mrs. Seema Kumar?
- (d) Explain the procedure for death claim to be followed by nominee of the Insurance Policy.

(5 marks each)

Question No.5

Ramesh, an individual, has taken with Urban Insurance Co. Ltd, a fire policy against his residential property, for a sum assured of Rs.30,00,000. The cover lasts till the end of September, 2023. In April, 2023, some wall painting work was going on in his house and he has stored plastic paint containers in his house. On 20th May, 2023, an accidental fire takes place and the entire building is gutted and damaged. Ramesh prefers a claim with the insurance company. The claim is rejected on the ground of negligence on Ramesh's part. Representations made by Ramesh to the insurer against such a rejection were not successful.

In view of the above, answer the following:

- (a) Explain whether the claim rejected by the Insurance company on the ground of negligence of Mr. Ramesh is correct.
- (b) Explain the nature and meaning of fire insurance.
- (c) Explain various characteristics of a fire insurance policy.

(5 marks each)

Attempt all part of either Q. No. 6 or Q. No. 6A

Question No.6

Ishwar had purchased a bus by taking a hire-purchase loan from Swami Financiers. The bus was used as a private service vehicle and not as a public transport. It was insured under a comprehensive motor policy issued by SI Insurance Co. Ltd. The bus met with an accident and an insurance claim was lodged. The insurer appointed a licensed surveyor who assessed the loss at Rs.5,40,000. Out of this, the company deducted Rs. 95,000 on the ground that the driver of the bus did not have an endorsement on his driving licence to drive a transport vehicle. The balance of the amount was paid by the insurer to Swami Financiers. Aggrieved by this, Ishwar filed a complaint before the Consumer Forum.

In view of the above, answer the following:

- (a) Can an insurance claim be paid to the financier and not to the insured?
- (b) What are the exclusions under a comprehensive motor insurance policy?
- (c) What are the common reasons for the repudiation of claims under motor insurance policies?

(5 marks each)

OR (Alternate question to Q. No. 6)

Question No.6A

Mr. Alex is an individual, non-Indian, non-citizen and non-resident of India and controls a group of organizations engaged in the financial sector located outside India. He intends to set up a life insurance company in India and after due diligence has decided to align himself with an Indian Company. Mr. Alex done agreement with Mr. Sunil Sharma for new insurance company and signed legal documents. Mr. Alex and Mr. Sunil brought 80:20 capital in the company. Mr. Alex looks after the operations and Mr. Sunil looks after the marketing of the company.

In view of the above, answer the following:

- (i) Explain the detailed registration procedure for Insurance company in India.
- (ii) State the powers of Insurance Regulatory and Development Authority of India related to granting registration of new company in India.
- (iii) How much FDI is allowed in Life Insurance company registered in India?

(5 marks each)