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Roll No..................................... **OPEN BOOK EXAMINATION**

Time allowed : 3 hours ***Maximum marks : 100***

Total number of questions : 6 ***Total number of printed pages : 6***

NOTE : *Answer* ***ALL*** *Questions.*

1. Case Study :

RISK MANAGEMENT IN BANKS

John Kenneth Galbraith, famous Harvard Economist and the US Ambassador to India during J.F. Kennedy's Administration wrote.

'All Financial Crises are the result of Debt that, in one fashion or another, has become Dangerously out of Scale'.

This was clearly demonstrated in the Financial Crisis which took place in the US in 2008. Aggressive lending characterized by Sub-prime Housing Loans and excessive leverage in major Banks and Financial Institutions led to the most serious financial challenge since the Great Depression of 1930s. The Sub Prime Crisis had reportedly led to a total write off of 1.18 trillion Dollars. One has to understand the causes of the Financial Crisis and take appropriate measures to avoid its recurrence. In order to withstand such a shock in future, the Basel Committee on Banking Supervision (BCBS) has announced on 13th September, 2010, New Capital Rules as agreed by the global regulators. The new requirement, known as Basel-III, demands a substantial strengthening of existing capital requirements. This involves higher global Minimum Capital Standards for Banks.

As cited above, Basel-III reforms are the response of BCBS to improve the Banking Sector's ability to absorb shocks arising from financial and economic stress, whatever the source, thus reducing the Risk of Spill over from the financial sector to the real economy. During the Pittsburgh Summit in September 2009, the G-20 leaders committed to strengthen the regulatory system for Banks and other Financial Firms and also act together to raise Capital Standards, to implement strong International Compensation Standards aimed at ending practices that lead to excessive risk-taking, to improve the Over-The-Counter Derivatives Market and to create more powerful tools to hold large global firms to account for the risks they take. For all these reforms, the leaders set for themselves strict and precise timetables. Consequently, the BCBS released comprehensive reform package entitled ''Basel-III : A global regulatory framework for more resilient Banks and Banking Systems" (known as Basel III capital regulations) in December 2010.

Basel-III reforms strengthen the Bank-level i.e. Micro prudential regulation, with the intention to raise the resilience of individual Banking Institutions in periods of stress. Besides, the reforms have a Macro prudential focus also, addressing system wide risks, which can build up across, the Banking Sector, as well as the pro-cyclical amplification of these risks over time. These new Global Regulatory and Supervisory Standards mainly seek to raise the Quality and level of Capital to ensure Banks are better able to absorb losses on both a going concern and a gone concern basis, increase the Risk coverage of the Capital framework, introduce Leverage Ratio to serve as a backdrop to the Risk-based Capital measure, raise the Standards for the Supervisory Review Process (Pillar-2) and Public Disclosures (Pillar-3) etc. The Macro prudential aspects of Basel-III are largely enshrined in the Capital Buffers. Both the Buffers i.e. the Capital Conservation Buffer and the Countercyclical Buffer are intended to protect the Banking Sector from periods of excess Credit Growth.

Reserve Bank of India (RBI) issued Guidelines based on the Basel-III reforms on Capital Regulation on 2nd May, 2012, to the extent applicable to Banks Operating in India. Banks have started implementing the Guidelines from 1st April, 2013 in India in a phased manner. Banks are advised by RBI to report the CRAR as per Basel-II and Basel-III simultaneously in all their disclosures to the stakeholders.

In this backdrop, you are required to give answers in the context of prevailing Banking Practices and various RBI Compliances to the following :

(*a*) How is Basel-III an improvement over Basel-II ?

(*10 marks*)

(*b*) What is the Additional Capital that Indian Banks have to mobilize to conform to Basel-III ?

(*8 marks*)

(*c*) How will Basel-III affect the Profitability of Banks ?

(*8 marks*)

(*d*) Does India really need Basel-III ?

(*8 marks*)

(*e*) What are the potential challenges in implementing the Countercyclical Capital Buffer ?

(*8 marks*)

(*f*) What sort of Capacity Building is required in the Implementation of Basel-III, especially in the area of Risk Management ?

(*8 marks*)

2. (*a*) Mr. Swamy is maintaining a Savings Bank Account at XYZ Branch of ABC Bank. A cheque dated 31st March, 2020 for ₹ 8,500 drawn by him, has been paid by the branch on 5th April, 2020. After one month when he got updated his passbook, he raised objection regarding the said debit of ₹ 8,500. He pointed out that he had issued the said cheque for ₹ 500 only. When the cheque was subsequently examined under Ultraviolet Ray Lamp, it was transpired that the name of the Payee, Amount and Date of cheque were chemically altered. Mr. Swamy alleged negligence on the part of the XYZ Branch of ABC Bank. Whether the Bank action in correct ?

(*5 marks*)

(*b*) State whether the following statements are True *or* False with reasons :

(1) Lok Adalats are organised under the SARFAISI Act.

(2) When DRT has jurisdiction, the Civil Courts are debarred from handling any case ?

(3) Where prescribed limitation period expires on 15th August, the suit may be instituted on the next date when Court reopens.

(4) A banker allows his customer, funds before clearance of cheque. This will not amount to creation of debt.

(5) An advocate of a Bank Customer can file a complaint to Banking Ombudsman.

(*1 mark each–5 marks*)

(*c*) M/s. XYZ Ltd. is maintaining a Current Account for few years with ABC Bank, maintaining an average balance of ₹ 20 Lakh. The company never asked for a credit facility. Now, the company needs a Performance Guarantee of ₹ 4 crore to execute an order of Government Department. Discuss how the Bank will handle the request of the company.

(*5 marks*)

(*d*) ABC Ltd. failed to register the charge on their property/Assets for the term loan of ₹ 10 crore taken from XYZ Bank. What is the remedy available to the Bank to secure its loan ?

(*5 marks*)

(*e*) In a Current Account of a partnership firm consisting of two partners, one partner died. The son of the deceased partner claims the balance in the account as legal heir. How the Bank will deal in such a situation ?

(*5 marks*)

(*f*) X maintains a balance of ₹ 10,000 in his Savings Account with a Bank and owes ₹ 5,000 to the Bank as overdraft in another account. X also maintains a Joint Savings Bank Account with his wife Y in the same Bank and maintain a balance of ₹ 15,000 in this Joint account. Bank receives a Garnishee order of ₹ 11,000 issued by a Competent court for attaching Accounts of X. How does the Bank Act upon such Garnishee order ?

(*5 marks*)

3. "Leverage Ratio, Loan to Value Ratio and Debt Service Coverage Ratio are the three important Ratios in analysing "Term Loan Proposals" of Business firms by the Banks. Explain the importance of these three Ratios from the Bankers Point of View.

(*2+1+2 marks*)

4. Small Finance Banks (SFB) and Payment Banks (PB) are called Differentiated Banks. Briefly explain the functions of SFBs and PBs.

(*5 marks*)

5. Society for Worldwide Inter-bank Financial Telecommunication (SWIFT) is a Cooperative Non-profit making organization established under Belgian law and with its Headquarter at Brussels. How this Financial Telecommunication system is useful for Indian Banks and for what purpose ?

(*5 marks*)

6. What are the unethical practices noticed in the area of Financial Management ?

(*5 marks*)

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