NEW SYLLABUS **554**

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

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

Total number of questions : 6 ***Total number of printed pages : 12***

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

PART–I

1. Central Bank Digital Currency (CBDC)

Central Banks are an important pillar of the financial ecosystem. Fundamentally, they have always provided efficient, quick, seamless, stable solutions for their respective economies. This includes payment systems and the issue of currency. Recent advancements in Technology and the Global Economy have pushed these apex bodies to revisit their basic functions and adapt.

The Reserve Bank of India (RBI) has defined Central Bank Digital Currency (CBDC) as the legal tender issued by a Central Bank in a Digital Form. It is the same as a Fiat Currency and is exchangeable one-to-one with the Fiat Currency.

Money as a concept has evolved over time, beginning with the barter system where goods were exchanged as 'Money' to metallic and paper currency, banking instruments and now Digital Currency. Despite the changing forms of money, it has always had three basic characteristics :

- It is a store of wealth.
- It can be used as a medium of exchange.
- It acts as a unit of account

Currency is this 'form' of money which the Central Bank of any jurisdiction issues, assumes liability for and accepts as legal tender.

Due to its various forms, rapid innovation and private nature (not Sovereign Issued), the emergence of Digital Money was accompanied by a lot of hesitation with respect to usage.

There were also concerns about its security and decentralized nature, which gave rise to a very volatile environment for Cryptocurrency or Stable Coins. However, over time, increased usage of these forms of digital money gave Central Banks across the world a push to meet this demand, especially with the growing preference for Electronic Payment Methods and the increasing Cost and Operational hassles involved in printing money.

Central Banks around the World, including those of China, Russia or the USA, are developing or researching the use of CBDC. A survey conducted by the Bank of International Settlements (BIS) in 2021 revealed that 86% of Central Banks around the Globe were actively researching the potential for CBDCs, 60% were experimenting with the Technology and 14% were deploying Pilot Projects. Retail CBDC Projects appear to be more advanced in emerging economies with Financial Inclusion stated as an expected outcome. Wholesale efforts are mostly conducted in more advanced economies with more developed Interbank Systems and Capital Markets.

They come with their own set of benefits that the Governments of these Countries can leverage.

The RBI has also talked about CBDC in its ‘Report on Currency and Finance 2020-21 and is exploring the case for issuing and Operationalizing a CBDC.

A CBDC is a Digital Form of the fiat currency issued by the central bank of a country and is in lieu of the Paper/Metal Currency issued which is the direct liability of the Central Bank that, it is denominated in the National Unit of Account. A CBDC acts as a safe, government-backed, and ultimate medium of settlement by eliminating all claims that occur during a transaction.

A General-purpose CBDC needs an underlying system for issuance and distribution to the public in a convenient way. Depending on the model adopted, the whole ecosystem will need various players to function, which includes the RBI, Public and Private Banks, Payment Service Providers (PSPs) and Operator(s). If we consider the wider ecosystem, we can also include other financial institutions and third-party service or application providers. While issuance models implemented may not be inherently different from the current intermediary system of currency issuance, every Central Bank and Commercial Bank will need to adopt parallel end-to-end blockchain enabled system for CBDC issuance and circulation.

Wholesale CBDC can play a significant role in the evolution of Wholesale Payments which Central Banks are trying to Modernize. Wholesale CBDC will facilitate Interbank Settlements on Net Basis. It will also support conditionality of payment where settlement will be dependent on another payment transaction or delivery of an Asset/Security. Wholesale CBDC can be used for interbank settlements, Cross-border remittances, and Capital and Security Markets. It is expected that Wholesale CBDC will make existing payment transactions efficient.

Ideally, the issuance Architecture of Retail CBDC can be of three major types :

- Direct Issuance : The Central Bank issues directly to the public. The CBDC claim is on the Central Bank.
- Hybrid Issuance : The Central Bank issues to PSPs, which onboard clients and execute payments. The Bank periodically records the Retail Balances.
- Indirect (Two-Tier) : The Claim is on the Intermediary Commercial Bank but backed by the Central Bank. The Banks on-board Customers and handle Retail Payments. The Central bank Handles Wholesale Payments.

In a Country like India, where around 550 Million people still use feature phones, it is important for CBDC to not only cater to the Tech-savvy Youth, but also to include feature Phone Users and People from lower socioeconomic groups within the country. Another 845 million people have Smartphones, out of which many still don't use Mobile Banking or Digital Payments in their daily lives.

There is a plethora of reasons for Exclusion to occur in the case of something like CBDC. These can range from economic factors, lack of knowledge, propensity of people in Tier-2 or Tier-3 Cities to use Cash, and unawareness of the existence of CBDC in some markets.

To build a CBDC Ecosystem and make it sustainable, it is essential to address all these issues and for CBDC to act as a Tool for inclusion by solving the problems through innovation, as in the case of Offline Payments.

On the basis of the above facts, Answer the following Questions :

(*a*) What is Digital Rupee ?

(*b*) How can 'e₹' be held and used ?

(*c*) What is an 'e₹' Wallet ?

(*d*) Is '*e*₹' wallet safe ?

(*e*) How is Digital Rupee created and issued ?

(*f*) Is there any difference between 'e₹' and UPI ?

(*g*) What is offline feature of 'e₹' ?

(*h*) What is Wholesale CBDC and how does it differ from retail CBDC ?

(*i*) What are the current use cases in 'e₹-W' and what are the benefits ?

(*j*) Whether 'e₹' is legal tender ?

(*2×10=20 marks*)

2. (*a*) "The National Housing Bank (NHB) has played a crucial role in supporting the government's initiative of providing shelter to the mass population of our country by promoting a sound housing finance system, developing housing finance institutions, and making housing credit more affordable, especially for low and moderate income groups."

(*i*) Do you agree with this statement ?

(*ii*) What is the role of NHB in the growth of housing infrastructure in India ?

(*2+3=5 marks*)

(*b*) Online banking is an advanced financial solution that uses technology to provide a complete set of services. Going beyond the basic features of checking your account balance or transferring funds, digital banking covers services which may include online banking, mobile banking, virtual assistance and more. This means digital banking incorporates both online and mobile banking, as these forms of banking are an important part of the broader digital banking ecosystem. In this context answer the following :

(*i*) What is meant by Digital Banking ?

(*4 marks*)

(*ii*) What are the key features of Digital Banking ?

(*6 marks*)

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

3. (*a*) X has a Term Loan of Rs. 20.00 Lakh at ABC Bank with outstanding liability of Rs. 25.00 Lakh on 31.03.2024, this account was classfied as NPA as on date due to overdue instalments. Bank demanded repayment of the loan u/s 13(2) of SARFAESI ACT. The borrower is willing and is ready to pay the highest bid price or reserve price of the mortgaged property in public auction. Bank made an auction of his property for the highest bid of Rs. 22.50 lakh. X participated in the bid and paid the bid amount. He refused to pay balance amount of Rs. 2.50 Lakh, taking a plea that he is not liable to pay because his property was sold out and nothing is left with him.

Can X has the right to deny the payment of the balance amount ?

Explain with reference to a decided case law.

(*2+3=5 marks*)

(*b*) "The Reserve Bank of India's (RBI) objective for the Voluntary Transition of Small Finance Banks (SFBs) to Universal Banks is to Strengthen the Banking System and Financial Inclusion".

Explain the RBI Roadmap for Voluntary Transition of Small Finance Banks to Universal Banks.

(*5 marks*)

(*c*) Ajith Menon, is the Auditor of Trivandrum Branch of XYZ Bank. He verified the provisions made by the Branch as on 31st March, 2024 in respect of the following Non-performing Assets :

Name of the Account	NPA Category	Balance outstanding as on 31st March, 2024 (₹ in lakh)	Amount of Provision made (₹ in Lakh)
Raju Industries	Doubtful (D1 category)	10.00	5.00
AJK Tyres	Sub-Standard Asset	50.00	7.50
ATV and Company	Doubtful (D2 Category)	30.00	30.00
DAS & Sons	Loss Asset Category	1.00	1.00

Outstanding amount as on 31st March, 2024, relating to each NPA Accounts listed above (Except DAS & Sons) are fully secured.

However, only Personal Guarantee of Proprietor (Net Worth of Proprietor ₹ 50 Lakh) is available in the account of DAS & Sons.

Comment on the correctness of the above Provisions.

The auditor has doubts regarding classification of above accounts as NPA, though these are fully secured or guaranteed. Explain.

(*3+2=5 marks*)

Or (Alternate Question to Q. No. 3)

3A. (*i*) Gopal availed a Term Loan of ₹ 10 lakhs for 'Repairs and Paintings' of Existing House from M/s XYZ Bank. The Bank offered a Term Loan with an Annual Interest Rate of 7.2% and the Tenure of the Loan is 10 Years.

Calculate EMI for the Term Loan i.e., Monthly Instalment to be paid by Mr. Gopal.

(*5 marks*)

(*ii*) Who is an NRI and a PIO ? What are the accounts that a Tourist Visiting India can open ?

(*5 marks*)

(*iii*) The following data pertain to Premier Wires Ltd for the financial year 2024-25 (figures Rs. in lakh)

Creditors for trade Rs. 375

Creditors for expenses Rs. 25

Other current liabilities Rs. 200 (Other than bank borrowings)

Existing bank borrowings Rs. 50 (for working capital)

Raw materials and work in progress Rs. 840

Finished goods Rs. 360

Book debts Rs. 220

Bank fixed deposits Rs. 60.

Calculate Maximum Permissible Bank Finance (MPBF) as per Tandon Committee recommendations using the norm of current ratio of 1.33.

(*5 marks*)

PART–II

4. Insurance Contracts

Insurance Contracts follow a few basic principles. Generally, these principles are applicable for most of the Insurance Policies. But it must be remembered that there are exceptions. That is to say, a particular principle may not be applicable to a specific contract.

The basic principles are :

(1) Insurable Interest : Which means that in case of loss of or damage to the property/subject matter, the proposer must suffer financial loss. This gives the proposer legal right to insure the property/subject matter.

One can have insurable interest in a property for anyone/more of the following reasons :

(*i*) Ownership.

(*ii*) Bailor/Bailee.

(*iii*) Lessor/Lessee.

(*iv*) Mortgagor or Mortgagee.

(*v*) Goods held in trust/by agreement.

(2) Indemnity : According to Legal Dictionary, 'Indemnity' means

(1) Protection of security against damage or loss.

(2) Compensation for damage or loss sustained.

(3) Something paid by way of such compensation.

(4) Protection, by insurance, from liabilities or penalties incurred by one's actions.

The principle of Indemnity therefore ensures that the insured gets only the 'compensation' for the loss incurred by him. He should never stand to gain financially through settlement of any insurance claim. Please note that, the 'monetary cost' of one's life cannot be evaluated. It is assumed to have infinite value to oneself. Hence, strictly speaking, this principle is not applicable for Policies covering life.

(3) Utmost Good Faith : The Principle of Utmost Good Faith states that a contract "in which knowledge of the material facts generally lies with one party alone; that party is under a duty to make a full disclosure of these facts, and failure to do so, makes the contract voidable."

(4) Subrogation : 'Subrogation' means transfer of right from Insured to the 'Insurer'. When a loss or damage takes place, and if such loss is indemnifiable by others as per law or contract, Insurers (after indemnifying the insured) exercise their right to recover the loss from persons/organization responsible for indemnifying such loss. It is clear that, in absence of this principle, Insured may gain financially out of settlement of a claim. Therefore, principle of subrogation is essentially a corollary of the principle of Indemnity.

(5) Proximate Cause : 'Proximate Cause' can be formally defined as "active, direct, and efficient cause of loss in insurance that sets in motion an unbroken chain of events which bring about damage, destruction, or injury without the intervention of a new and independent force".

(6) Contribution : 'Contribution' arises when there is more than one insurance policy which can cover the same loss. It is generally applicable for property insurances. The usual practice is to share the loss on proportionate basis between the Policies. Careful study would reveal that 'Contribution' clause is also a corollary of the basic principle of Indemnity. 'Contribution' clause is not applicable for Policies covering life e.g. Personal Accident Policy.

After reading the above, provide the correct answers for the below mentioned situations.

(*a*) Raja made a proposal to an insurance company for an insurance policy on his life for ₹ 8,00,000 and paid the insurance premium. He truthfully answered all questions on the proposal form and had disclosed all relevant facts. A few days later, but before the proposal was accepted, Raja fell ill with pneumonia. The proposal was accepted by the company on the next day. Two days later Raja died of pneumonia and the company learnt for the first time of his illness. Raja's family claimed the insurance amount. Is the insurance company liable to make the payment.

(*4 marks*)

(*b*) There are numerous definitions of insurance. Based on the definition of insurance stated in the text, indicate whether each of the following guarantees is considered insurance.

(1) A television set is guaranteed by the manufacturer against defects for 90 days.

(2) A new set of radial tyres is guaranteed by the manufacturer against road defects for 50,000 miles.

(3) A builder of new homes gives a ten-year guarantee against structural defects in the construction.

(4) A large group of homeowners agree to pay for losses to homes during the year because of fire.

(*4 marks*)

(c) How can you differentiate between a warranty and a representation ?

(*4 marks*)

(*d*) Discuss the legal authority of the insurer to repudiate its liabilities. (*3 marks*)

(*e*) An Insured applies for life insurance and states in the application that he has not visited a doctor during the last five years. However, six months earlier, he had surgery for lung cancer. He passed away three months after the policy issuance. Can the company deny the claim ? (*3 marks*)

(*f*) A sells his house to B, and a fire occurs before the insurance on the house is cancelled by A. Who can collect the insurance monies ? A or B.

(*2 marks*)

5. (*a*) X purchased a Life Insurance Policy on 3rd day of March 2024. He had declared in the Proposal Form that he was suffering with heart disease. He expired on 29th day of December 2024 due to heart attack. The Insurance Company denied the claim on the grounds of 'Early Claim'.

What is meant by 'Early Claim' ? (*4 marks*)

(*b*) "The recent initiative by IRDAI, "Bima Sugam" is perceived to be a big game changer in the general insurance market development. It is a revolutionary step with ambitions of becoming the largest online market for insurance products and services which has not been practiced anywhere in the world."

Explain the objectives and key features of "Bima Sugam" ? (*6 marks*)

(*c*) IRDA issued revised Guidelines on Motor Insurance Third-Party obligations. Explain.

(*5 marks*)

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

6. (*a*) What is the difference between subject-matter of insurance and the subject-matter of a contract of fire insurance ?

(*3 marks*)

(*b*) Three friends, Mr. Ashok, Mr. Lalit, and Mr. Hari-teamed up to start a lobster export business. Mr. Ashok owned a boat which was used in the business for fishing as well as for transporting the processed lobsters to foreign shores. They insured their ship, the cargo, freight, profits and commission, for a total of ₹ 80 lakh. Expecting to obtain enormous profits on their cargo, it was overvalued by the insured. A few months later, the boat sank in mid-ocean as it had a hole. Consequently, the cargo was also lost. The insured approached the insurance company to file a claim for compensation for the lost boat and cargo. However, the insurance company refused payment of the entire claim amount. It only made partial payment of the claim stating that the cargo was insured for an amount more than its actual market value. Moreover, investigation by the insurance company surveyor revealed that the insured had intentions to sink the boat. The vessel was retrieved by the insurance company and was offered for sale as salvage. The insured approached the court to prevent the sale of the ship.

Answer the following :

(*i*) Was the insurance company violating the insurance contract by refusing payment to the insured ? Justify your answer.

(*ii*) Discuss the duty of an insurer pertaining to salvage.

(*3+3*=6 *marks*)

(*c*) Hemant Patel, a real-estate broker, lived in Delhi with his wife and two children. He owned a bungalow in Karol Bagh which was insured with Elite Insurance Company, New Delhi, for Rs. 35 lakh. On December 31st 2024, Hemant went to the local club with his family to attend a New Year party. When they returned home in the early hours of the next day, they found that their house was burgled and many valuables were taken away. While the police investigation was going on, the insurer sent his surveyor to look into the cause of the loss, the compliance of the insured with the terms of the policy, and the amount of loss suffered by the policyholder. During the course of investigation, the surveyor observed significant discrepancies in the statements given by the insured. These discrepancies pertained to the list of items reported to have been stolen and the mismatch between the true value of these items and the amount supposedly involved in the burglary. When the surveyor submitted his report to the insurance company, he mentioned that the financial condition of the insured was not good before the burglary and he had increased the insurance coverage on his house just a few days before the burglary took place.

Hemant's claim form was therefore rejected by the insurance company on the grounds of fraud. Hemant filed a lawsuit against the insurance company.

(*i*) Was Hemant eligible to receive the claim amount for the reported loss that he had suffered ?

(*ii*) Why do insurers make payments for suspicious claims ?

(*3+3=6 marks*)

OR (Alternate question to Q. No. 6)

6A. (*i*) Explain how the Insurers address the growing concern over unclaimed amount as per IRDAI's Guidelines.

(*6 marks*)

(*ii*) IRDAI notified to Insurers on Health Insurance Scheme Regulations on 29th May, 2024. What are the key features of the said Regulations ?

(*6 marks*)

(*iii*) A, purchased a flat of Rs. 25.00 lakh, taking a loan of Rs. 20.00 lakh from a bank and balance of Rs. 5.00 lakh was paid out of his past savings. Bank obtained an Insurance policy of Rs. 25.00 lakh from an Insurance Company. Thereafter an earthquake occurred and entire flat was destroyed, nothing could be realized from this property. Bank has submitted an Insurance Claim to the Insurance Company. What is your opinion about insurable interest of bank in this property and how much amount of claim that bank is eligible to receive from the insurance company ?

(*1+2=3 marks*)

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