



FINAL EXAMINATION
ANSWERS TO PRACTICE TEST PAPER
PAPER – 20B
RISK MANAGEMENT IN BANKING & INSURANCE

TERM – JUNE 2026
SYLLABUS 2022

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 ____
- a. Political risk
 - b. Sovereign risk
 - c. Transfer risk
 - d. Transaction risk
- (ii) If you bought a long contract on financial futures, you hope that interest rates -
- a. rise
 - b. fall
 - c. are stable
 - d. fluctuate
- (iii) A transaction where financial securities are issued against the cash flow generated from a pool of assets is called-----.
- a. Securitization
 - b. Credit Default Swaps
 - c. Credit Linked Notes
 - d. 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.
- a. Interest rate
 - b. Equity
 - c. Foreign exchange
 - d. 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?
- a. Money Back Plan
 - b. Endowment Plans
 - c. Term Insurance Plans
 - d. Unit-linked insurance plan
- (vi) Policy matures on the assured death or on his attainment of a particular age whichever occurs earlier



FINAL EXAMINATION

ANSWERS TO PRACTICE TEST PAPER

TERM – JUNE 2026

PAPER – 20B

SYLLABUS 2022

RISK MANAGEMENT IN BANKING & INSURANCE

- a. Endowment
 - b. Money back
 - c. Joint life
 - d. Single premium
- (vii) Which of the following statements correctly describes an Insurance Broker?
- a. An Insurance Broker represents the insurer and can sell products of up to three insurance companies.
 - b. An Insurance Broker represents the client, is independent of insurers, and can sell products of any number of insurance companies.
 - c. An Insurance Broker's sales practices legally bind the insurer in all cases.
 - d. Only one type of Insurance Broker is recognised by regulations.
- (viii) What does the term "Out-of-pocket maximum" mean in health insurance?
- a. It is the maximum amount an insurer will pay for a specific benefit during a policy year.
 - b. It is the limit beyond which the insured must pay all medical expenses themselves.
 - c. It is the amount after which the insured person's payment obligation ends and the insurer pays all further covered costs.
 - d. 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.
- a. Survivorship life insurance policy
 - b. Group life insurance
 - c. Joint life insurance
 - d. Prepaid insurance
- (x) Subrogation means _____
- a. something of monetary value
 - b. to make good loss
 - c. payment of premium
 - d. transfer of rights of an insured to another person

Answer:

i	ii	iii	iv	v	vi	vii	viii	ix	x
b	b	a	c	d	a	b	c	a	d

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



FINAL EXAMINATION

ANSWERS TO PRACTICE TEST PAPER

TERM – JUNE 2026

PAPER – 20B

SYLLABUS 2022

RISK MANAGEMENT IN BANKING & INSURANCE

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 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)?
 - a. Increases liquidity in the market
 - b. Reduces operational risk for banks
 - c. Transfers credit risk to another party
 - d. 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?
 - a. Interest Rate Swap
 - b. Credit Default Swap.
 - c. Equity Swap
 - d. Total Return Swap

- (iii) What action is the bank manager likely to take to reduce the bank's exposure to rising interest rates?
 - a. Increase short-term variable-rate loans
 - b. Convert fixed-rate liabilities to floating rates
 - c. Convert assets into fixed-rate loans
 - d. 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?
 - a. Profitability decreases
 - b. Profitability increases
 - c. Profitability remains the same
 - d. Profitability fluctuates unpredictably

- (v) What is the primary purpose of the bank manager's actions in mitigating interest rate risk?
 - a. To increase the bank's profitability



FINAL EXAMINATION

ANSWERS TO PRACTICE TEST PAPER

TERM – JUNE 2026

PAPER – 20B

SYLLABUS 2022

RISK MANAGEMENT IN BANKING & INSURANCE

- b. To reduce the bank's exposure to interest rate fluctuations
- c. To raise additional capital for the bank
- d. To improve the bank's liquidity

Answer:

i	ii	iii	iv	v
c	d	b	c	c

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]

Answer:

(a)

The various benefits provided by risk management are:

(i) Forecasts Probable Issues:

One of the benefits of risk management is that it changes the culture of a business organization. Companies that tend to focus more on risk management tend to be more proactive as compared to other companies, which can be reactive. Risk management forces the companies to take a hard look at each of their business processes and decide what can go wrong. This detailed what-if analysis helps companies become more proactive and forecast probable issues. Companies that extensively use risk management have fewer business disruptions as such issues are foreseen and taken care of at an early stage. The proactive approach is very helpful since it helps companies to identify failed projects at an early stage. The continuous feedback helps companies to decide whether investing additional money in a failed project will help it turn around or whether it is just throwing good money after bad.

(ii) Avoiding Catastrophic Events: Risk management prepares the companies for all kinds of shocks.

Risk managers try to foresee the small shocks, which affect the day-to-day business of any firm.

However, they also try to focus on catastrophic events. Such events have a very low probability of occurring. However, if they do occur, then companies need to be prepared to deal with them without going bankrupt. Such events have gained prominence in recent years. These events are called “black swan” events.

(iii) Enables Growth: Prima facie, risk management sounds like a defensive business activity. It has a negative connotation and the assumption is that the activity is performed to avoid losses. However, during risk management, companies are forced to study their processes and risk factors in detail. The management is aware of all the possible things that can go wrong.

When new products have to be launched or when new markets have to be entered, companies have a ready framework that can be deployed to avoid these risks. Hence, in a way, risk management ends up enabling



FINAL EXAMINATION

ANSWERS TO PRACTICE TEST PAPER

TERM – JUNE 2026

PAPER – 20B

SYLLABUS 2022

RISK MANAGEMENT IN BANKING & INSURANCE

companies to take calculated risks and expedite their growth. Extensive risk management processes mean that the company has a lot of data. This data can be mined to gain meaningful insight which ultimately leads to better decisions.

- (iv) **Helps to Stay Competitive:** Risk management helps companies to minimize their losses at critical times. These are the times when poorly managed companies struggle to stay afloat. On the other hand, companies that have risk management processes in place tend to minimize their loss. Hence, the competitiveness of such companies stays constant. It may improve also. It is a known fact that when adverse events such as recessions occur, companies with better risk management practices continue to stay afloat and have a lot of cash. This is the reason that during a crisis some companies seem to have the extra cash required in order to make acquisitions. Risk management processes also force different departments as well as different stakeholders to actively communicate with each other. This communication is helpful since it increases the competitiveness of the company.
- (v) **Business Process Improvement:** The day-to-day processes of risk management force companies to collect more and more information about their processes and operations. As a result, companies can identify the parts of the process which are inefficient or where there is scope for improvement. Risk management departments are supposed to continuously monitor the working of various departments about external entities and look for things that can go wrong. The end result is that during the process many opportunities are identified and processes are improved. Risk management processes often work hand in hand with business process reengineering and quality improvements in the process.
- (vi) **Enables Better Budgeting:** Companies that have risk management processes in place have better control of their finances as opposed to other companies. This is because they often have a close look at their financial numbers and try to trim any waste. The end result is that these companies have a better knowledge of their processes. As a result, these companies also have a better knowledge of their budgets. They can create more efficient budgets wherein funds can be allocated to achieve the goals of the company in the most optimized manner possible. In such companies, budgets do not have to rely on guesswork.

(b)

Masala Bonds were introduced in India in 2014 by International Finance Corporation (IFC). The IFC issued the first masala bonds in India to fund infrastructure projects. Indian entities or companies issue masala bonds outside India to raise money. The issue of these bonds is in Indian currency rather than local currency. Thus, if the rupee rate falls, the investor will bear the loss.

Masala Bonds are rupee-denominated bonds issued outside India by Indian entities. They are debt instruments, which help to raise money in local currency from foreign investors. Both the government and private entities can issue these bonds. Investors outside India who would like to invest in assets in India can subscribe to these bonds. Any resident of that country can subscribe to these bonds, which are members of the Financial Action Task Force. The investors who subscribe should be whose securities market regulator is a member of the International Organisation of Securities Commission. Multilateral and Regional Financial Institutions, which India is a member country can also subscribe to these bonds. According to RBI, the maturity period is three years for the bonds raised to the rupee equivalent of 50 million dollars in a financial year. The maturity period is five years for the bonds raised above the rupee equivalent of 50 million dollars in a financial year. The conversion of these bonds happens at market rate on the date of settlement of transactions undertaken for issue and servicing of interest of the bonds. The proceeds raised from these bonds can be used:



FINAL EXAMINATION

ANSWERS TO PRACTICE TEST PAPER

TERM – JUNE 2026

PAPER – 20B

SYLLABUS 2022

RISK MANAGEMENT IN BANKING & INSURANCE

- In refinancing of rupee loan and non-convertible debentures.
- For the development of integrated townships and affordable housing projects.
- Working capital to corporate.

RBI mandates the proceeds raised from these bonds cannot be used:

- In real estate activities, not including the development of integrated townships and affordable housing projects.
- Activities prohibited according to Foreign Direct Investment guidelines.
- Investing in capital markets and usage of the proceeds for equity investment domestically.
- Purchase of land.
- On-lending to other entities for any of the above purposes.

Benefits of Masala Bonds:

Masala bonds have various benefits. Both the investors and borrowers get benefits from subscribing and issuing of these bonds. The benefits for the investors are:

- It offers higher interest rates and thus benefits the investor.
- It helps in building up foreign investors' confidence in the Indian economy.
- It helps strengthen the foreign investments in the country as it facilitates foreign investors' confidence in Indian currency.
- The capital gains arising from rupee denomination are exempted from tax.
- If the rupee appreciates at the time of maturity, it benefits the investor.

The benefits for the borrowers are:

- It benefits the borrower as there is no currency risk. It saves the borrower from currency fluctuations.
- Borrowers need not worry about rupee depreciation as the issuance of these bonds is in Indian currency rather than foreign currency.
- The borrower can mobilise a huge amount of funds.
- It helps the Indian entity issuing these bonds to diversify their portfolio.
- It aids borrowers to cut down their cost as they are issued outside India below 7% interest rate.
- As these bonds issuing are in the offshore market, it helps borrowers to tap a large number of investors.

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]

Answer:

(a) The Reserve Bank had issued guidelines on Asset Liability Management (ALM) system, covering inter alia liquidity risk management system, in February 1999 and October 2007. Successful implementation of any risk management process has to emanate from the top management in the bank with the demonstration of its strong



FINAL EXAMINATION

ANSWERS TO PRACTICE TEST PAPER

TERM – JUNE 2026

PAPER – 20B

SYLLABUS 2022

RISK MANAGEMENT IN BANKING & INSURANCE

commitment to integrate basic operations and strategic decision making with risk management. Ideally, the organisational set up for liquidity risk management should be as under:

The Board of Directors (BOD): The BoD should have the overall responsibility for management of liquidity risk. The Board should decide the strategy, policies and procedures of the bank to manage liquidity risk in accordance with the liquidity risk tolerance/limits. The risk tolerance should be clearly understood at all levels of management. The Board should also ensure that it understands the nature of the liquidity.

The Risk Management Committee: The Risk Management Committee, which reports to the Board, consisting of Chief Executive Officer (CEO) Chairman and Managing Director (CMD) and heads of credit, market and operational risk management committee should be responsible for evaluating the overall risks faced by the bank including liquidity risk. The potential interaction of liquidity risk with other risks should also be included in the risks addressed by the risk management committee.

The Asset-Liability Management Committee (ALCO): The Asset-Liability Management Committee (ALCO) consisting of the bank's top management should be responsible for ensuring adherence to the risk tolerance / limits set by the Board as well as implementing the liquidity risk management strategy of the bank in line with bank's decided risk management objectives and risk tolerance.

The Asset Liability Management (ALM) Support Group: The ALM Support Group consisting of operating staff should be responsible for analyzing, monitoring and reporting the liquidity risk profile to the ALCO. The group should also prepare forecasts (simulations) showing the effect of various possible changes in market conditions on the bank's liquidity position and recommend action needed to be taken to maintain the liquidity position/adhere to bank's internal limits.

(b)

Sovereign risk is defined as the uncertainty associated with the likelihood that the host government may not make foreign exchange available to the borrowing firm to fulfil its payment obligations. Thus, even though the borrowing firm has the resources to repay, it may not be able to do so because of actions beyond its control. Thus, creditors need to account for sovereign risk in their decision process when choosing to invest abroad.

The reasons why it is easier to reschedule debt in the form of bank loans than bonds, especially in the context of post-war lending in international financial markets, include:

- (i) Loans usually are made by a small group (syndicate) of banks as opposed to bonds that are held by individuals and institutions that are geographically dispersed. Even though bondholders usually appoint trustees to look after their interests, it has proven to be much more difficult to approve renegotiation agreements with bondholders in contrast to bank syndicates.
- (ii) The group of banks that dominate lending in international markets is limited and hence able to form a cohesive group. This enables them to act in a unified manner against potential defaults by countries.
- (iii) Many international loans, especially those made in the post-war period, contain cross-default clauses, which make the cost of default very expensive to borrowers. Defaulting on a loan would trigger default clauses on all loans with such clauses, preventing borrowers from selectively defaulting on a few loans.
- (iv) In the case of post-war loans, governments were reluctant to allow banks to fail. This meant that they would also be actively involved in the rescheduling process by either directly providing subsidies to prevent



FINAL EXAMINATION

ANSWERS TO PRACTICE TEST PAPER

TERM – JUNE 2026

PAPER – 20B

SYLLABUS 2022

RISK MANAGEMENT IN BANKING & INSURANCE

repudiations or providing incentives to international agencies like the IMF and World Bank to provide other forms of grants and aid.

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]

Answer:

(a)

A Loan commitment is an agreement by a commercial bank or other financial institution to lend a business or individual a specified sum of money. A loan commitment is useful for consumers looking to buy a home or a business planning to make a major purchase. Loan commitments can be either secured or unsecured.

Secured Loan Commitment:

A secured commitment is typically based on the borrower's creditworthiness and it has some form of collateral backing it. Two examples of open-end secured loan commitments for consumers are a secured credit card—where money in a bank account serves as collateral—and a home equity line of credit (HELOC)—in which the equity in a home is used as collateral.

Because the credit limit is typically based on the value of the secured asset, the credit limit is often higher for a secured loan commitment than for an unsecured loan commitment. In addition, the loan's interest rate may be lower and the payback time may be longer for a secured loan commitment than for an unsecured one. However, the approval process typically requires more paperwork and takes longer than with an unsecured loan.

Unsecured Loan Commitment:

A loan that does not have any collateral backing is primarily based on the borrower's creditworthiness. An



FINAL EXAMINATION

ANSWERS TO PRACTICE TEST PAPER

TERM – JUNE 2026

PAPER – 20B

SYLLABUS 2022

RISK MANAGEMENT IN BANKING & INSURANCE

unsecured credit card is one very basic example of an unsecured open-end loan commitment. Typically, the higher the borrower's credit score, the higher the credit limits.

However, the interest rate may be higher than on a secured loan commitment because no collateral is backing the debt. Unsecured loans typically have a fixed minimum payment schedule and interest rate. The process for acquiring this type of loan often takes less paperwork and approval time than a secured loan commitment.

Advantages and Disadvantages of Loan Commitments:

Open-end loan commitments are flexible and can be useful for paying unexpected short-term-debt obligations or covering financial emergencies. In addition, HELOCs typically have low-interest rates, which may make their payments more affordable. Secured Credit Cards can help consumers establish or rebuild their credit; paying their bills on time and keeping total credit card debt low will improve their credit scores, and in time, they may be eligible for an unsecured credit card. The downside of a secured loan commitment is that borrowers who take out too much money and are unable to repay the loan may have to forfeit their collateral. For example, this could mean losing their home. Unsecured Commitments have a higher interest rate, which makes borrowing more expensive.

(b)

(i) Standard account Total = ₹50,000 Crores - 8% NPA = ₹4,000 Crores
= ₹50,000 Crores - ₹4,000 Crores = ₹46,000 Crores.
Provision at 0.4% = ₹46,000 Crores x 0.4% = ₹184.00 Crores.

(ii) Provision on NPA = Gross NPA 8% - Net NPA 3% = 5% i.e. ₹50,000 Crores x 5% = ₹2,500 Crores.

(iii) Provision on NPA = Gross NPA 8% - Net NPA 3% = 5% i.e., ₹50,000 Crores x 5% = ₹2,500 Crores.
Provision on standard account ₹184.00 Crores.
Hence Total Provision = ₹2,684 Crores

(iv) Gross NPA = ₹50,000 Crores x 8% = ₹4,000 Crores.
Net NPA = ₹50,000 Crores x 3% = ₹1,500 Crores.

(v) Provision coverage ratio for NPA = Total provision on NPA / Gross NPA
= ₹2,500 Crores / ₹4,000 Crores = 62.5%

(vi) Minimum provision required = Gross NPA x 70% = ₹4,000 Crores x 70% = ₹2,800 Crores

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**



FINAL EXAMINATION

ANSWERS TO PRACTICE TEST PAPER

TERM – JUNE 2026

PAPER – 20B

SYLLABUS 2022

RISK MANAGEMENT IN BANKING & INSURANCE

(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]

Answer:

(a)

(i) Tier-1

= Capital + Free Reserves + Perpetual non-cumulative preference shares

= ₹ 200 Crores + ₹ 600 Crores + ₹ 800 Crores = ₹ 1,600 Crores

(ii) Tier II

= (Provisions and Contingencies Reserves Maximum 1.25% of Risk Weighted Assets) +

(Revaluation Reserve at 55% Discount) + (Subordinated Debts)

= ₹ 350 Crores + ₹ 270 Crores (₹ 600 Crores x 45%, at 55% discount) + ₹ 600 Crores

= ₹ 1,220 Crores.

(iii) Amount of fund

= Amount of Tier-1 capital + Amount of Tier-2 capital

= ₹ 1,600 Crores + ₹ 1,220 Crores

= ₹ 2,820 Crores

(iv) Capital adequacy ratio of the bank

= (Amount of Tier-1 + Tier-2) / Total RWA

= ₹2,820 Crores / (₹20,000 Crores + ₹8,000 Crores) = 10.07%

(b)

A person is said to possess an insurable interest in a property if he has a legal relationship with the said property by which he would stand to lose financially if the property is lost or destroyed. The principle of insurable interest adds legal validity to an insurance contract, without which such contracts would be wagering or gambling in nature according to the Indian Contract Act 1872. The presence of insurable interest prevents fraudulent practices. In the absence of insurable interest, an unconcerned person can purchase policies on someone else's property and inflict loss on it deliberately to get the proceeds of the insurance settlement. Insurable interest provides the right to secure insurance and claim compensation to the insured based on the principle of indemnity. For example, people have insurable interests in their own homes and vehicles, but not in their neighbors' homes and vehicles, and almost certainly not those of strangers.

An insurance contract must meet four conditions in order to be legally valid:

- It must be for a legal purpose;
- The parties must have a legal capacity to contract;



FINAL EXAMINATION

ANSWERS TO PRACTICE TEST PAPER

TERM – JUNE 2026

PAPER – 20B

SYLLABUS 2022

RISK MANAGEMENT IN BANKING & INSURANCE

- There must be evidence of a meeting of minds between the insurer and the insured; and
- There must be a payment or consideration.

- 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]**

Answer:

(a)

It shall be the duty of every Licensed Surveyor and Loss Assessor to investigate, manage, quantify, validate and deal with losses (whether insured or not) arising from any contingency, and report thereon to the insurer or insured, as the case may be., All Licensed Surveyors and Loss Assessors shall carry out the said work with competence, objectivity and professional integrity and strictly adhere to the code of conduct as stipulated in these

Regulations:

1) The following, shall, inter alia, be the duties and responsibilities of a Surveyor and Loss Assessor:

- Declaring whether he has any interest in the subject matter in question or whether it pertains to any of his relatives, business partners, or through material shareholding;

Explanation:

For the purpose of this clause ‘relatives’ shall mean any of the relatives as defined in Subsection (77) of Section 2 of the Companies Act, 2013;

- Bringing to the notice of the Authority, any change in the information or particulars furnished at the time of issuance of the license, within a period not exceeding fifteen days from the date of occurrence of such change that has a bearing on the license granted by the Authority
- Maintaining confidentiality and neutrality without jeopardizing the liability of the insurer and claim of the insured;
- Conducting inspection and re-inspection of the property in question suffering a loss;
- Examining, inquiring, investigating, verifying, and checking upon the causes and the circumstances of the loss in question including the extent of loss, nature of the ownership and insurable interest;
- Conducting spot and final surveys, as and when necessary, and comment upon the franchise, excess/under insurance, and any other related matter;
- Estimating, measuring, and determining the quantum and description of the subject under loss;
- Advising the insurer and the insured about loss minimization, loss control, security, and safety measures, wherever appropriate, to avoid further losses;
- Commenting on the admissibility of the loss as also the observance of warranty conditions under the policy contract;
- Surveying and assessing the loss on behalf of an insurer or insured;
- Assessing liability under the contract of insurance;
- Pointing out discrepancies, if any, in the policy wordings;



FINAL EXAMINATION

ANSWERS TO PRACTICE TEST PAPER

TERM – JUNE 2026

PAPER – 20B

SYLLABUS 2022

RISK MANAGEMENT IN BANKING & INSURANCE

- Satisfying queries of the insured/insurer and of persons connected thereto in respect of the claim/loss;
 - Recommending applicability of depreciation, percentage, and quantum of depreciation;
 - Giving reasons for repudiation of claim, in case the claim is not covered by policy terms and conditions;
 - Taking expert opinion, wherever required;
 - Commenting on salvage and its disposal wherever necessary.
- 2) A surveyor or loss assessor whether appointed by an insurer or insured, shall submit his report to the insurer as expeditiously as possible, but not later than 30 days of his appointment, with a copy of the report to the insured giving his comments on the insured's consent or otherwise on the assessment of loss. Where, in special circumstances of the case, either due to its special and complicated nature, the surveyor shall under intimation to the insured, seek an extension, in any case not exceeding six months from the insurer for submission of his report.
- 3) In cases where the Survey report is pending due to non-completion of documents, the surveyor may issue the final survey report independently based on the available documents on record, giving a minimum of three reminders in writing to the insured.
- 4) If an insurer, on the receipt of a survey report, finds that it is incomplete in any respect, he shall require the surveyor under intimation to the insured, to furnish an additional report on such incomplete issues. Such a request may be made by the insurer within 15 days of the receipt of the original survey report. Provided that the facility of calling for an additional report by the insurer shall not resort to more than once in the case of a claim.
- 5) The surveyor on receipt of this communication shall furnish an additional report within three weeks of the date of receipt of communication from the insurer.

(b)

Prime Minister Narendra Modi rolled out the Pradhan Mantri Jan Arogya Yojana-Ayushman Bharat Health Scheme in September 2018. Termed as a “game-changer initiative to serve the poor”, the Scheme is also termed as ‘Modicare’ aimed at providing health care to the deprived.

“PMJAY-Ayushman Bharat is the biggest government-sponsored healthcare scheme in the world. The number of beneficiaries is almost equal to the population of Canada, Mexico and the US taken together.

The magnitude of the scheme could be gauged from the fact that more than 1,300 ailments are covered under it, including heart diseases, kidney and liver disorders and diabetes.

No one needs to register for the initiative. A health card would be provided to the beneficiaries for availing of the benefits. A toll-free number will be made available to the people for finding out more about the scheme.

2,500 modern hospitals would come up in tier-II and tier-III cities and would generate employment opportunities. A total of 13,000 hospitals have become a part of the Ayushman Bharat scheme.

Billed as the world's largest government healthcare programme, it will be funded with 60 per cent contribution coming from the Centre and remaining from the states.

As of September 2018, 15,686 applications for hospital empanelment have been received by the Government and over 8,735 hospitals, both public and private, have already been empanelled for the scheme, and as many as 31 states and union territories have signed MoUs with the Centre and will implement the programme. Telangana, Odisha, Delhi, Kerala and Punjab are not among the states which have opted for the scheme.



FINAL EXAMINATION

ANSWERS TO PRACTICE TEST PAPER

TERM – JUNE 2026

PAPER – 20B

SYLLABUS 2022

RISK MANAGEMENT IN BANKING & INSURANCE

According to Health ministry officials, the 71st round of National Sample Survey Organisation (NSSO) revealed that 85.90% of rural households and 82% of urban households have no access to health care insurance. More than 24% of the households in rural India and 18% population in urban area have met their health care expenses through some sort of borrowing.

Beneficiaries: The scheme will target poor, deprived rural families and identified occupational category of urban workers' families, 8.03 crore in rural and 2.33 crore in urban areas, as per the latest Socio-Economic Caste Census (SECC) data. It will cover around 50 crore people and there is no cap on family size and age in the scheme ensuring that nobody is left out.

Contribution to the Scheme: 60% of the contribution comes from the Centre and remaining from States. The burden on the Centre is likely to be around ₹ 3,500 Crores in the fiscal year 2018-19 on account Centre's contribution to this Scheme.

Health Insurance Coverage : ₹ 5 lakh cover per year is provided under this Scheme. 1,354 ailments are covered. Treatment for coronary bypass, knee replacements and stenting, among others, would be provided at 15 to 20% cheaper rates than Central Government Health Schemes

Treatment to be availed: Benefits can be availed in Government hospitals as well as listed Private hospitals. The entitlement is decided on the basis of deprivation criteria in the SECC database. The beneficiaries are identified based on deprivation categories (D1, D2, D3, D4, D5 and D7). For urban areas, 11 occupational criteria will determine entitlement. Rashtriya Swasthya Bima Yojana beneficiaries in States where it is active, are also included. There is no cap on family size and age in the Scheme. Aadhaar card is not mandatory. Even election identity card or ration card can be used to establish identity. NHPS will subsume the ongoing centrally sponsored schemes such as Rashtriya Swasthya Bima Yojana (RSBY) and the Senior Citizen Health Insurance Scheme.

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]

Answer:

(a)

Five steps to Information Technology Risk Management for Insurance Companies:

Step 1: Design an Information Security Program: An information security program should be appropriate for the insurance professional's size and complexity. As part of the ERM approach, a company may choose to mitigate the risks itself or transfer the risk to a vendor. If the company outsources services, however, it needs to assure that the outsourcing partner also protects sensitive information.

Step 2: Choose Appropriate Security Controls: Similar to other prescriptive standards, a series of controls that can help guide actuaries. The 11 controls used by risk analysts are:

- Create authentication and access controls.
- Identify critical data, personnel, devices, information technology (IT) systems, and facilities.



FINAL EXAMINATION

ANSWERS TO PRACTICE TEST PAPER

TERM – JUNE 2026

PAPER – 20B

SYLLABUS 2022

RISK MANAGEMENT IN BANKING & INSURANCE

- Restrict physical access.
- Incorporate at-rest and in-transit encryption.
- Adopt secure software development practices.
- Modify the information systems to maintain compliance with the security program.
- Incorporate controls, such as multi-factor authentication, for access.
- Test and monitor systems and procedures regularly.
- Create audit trails to detect and respond to cybersecurity events that enable reconstruction of material financial transactions.
- Implement measures to protect against destruction, loss, or damage from natural disasters, fire, and water damage, or technological failures.
- Create secure disposal and records retention procedures.

Step 3: Cybersecurity in ERM: An ERM-based approach to cybersecurity, the model law specifies that the enterprise risk management process should incorporate information security.

Step 4: Stay Informed: This risk management procedure focuses on sharing information about emerging threats and vulnerabilities. As part of continuous monitoring, insurance companies should be aware of new threat vectors. As part of informing internal and external stakeholders, they need to establish clear communication procedures.

Step 5: Cybersecurity Training: The model law focuses on both initial training and continued, updated training to reflect new risks to the data ecosystem and environment. Repeating the “stay informed” procedure highlights the importance of employee cyber awareness.

(b)

Risk management provides a clear and structured approach to identifying risks. Having a clear understanding of all risks allows an organization to measure and prioritize them and take the appropriate actions to reduce losses. Risk management has other benefits for an organization, including:

- Saving Resources: Time, assets, income, property and people are all valuable resources that can be saved if fewer claims occur.
- Protecting the reputation and public image of the organization.
- Preventing or reducing legal liability and increasing the stability of operations.
- Protecting people from harm.
- Protecting the environment.
- Enhancing the ability to prepare for various circumstances.
- Reducing liabilities.
- Assisting in clearly defining insurance needs.

An effective risk management practice does not eliminate risks. However, having an effective and operational risk management practice shows an insurer that organization is committed to loss reduction or prevention. It



FINAL EXAMINATION

ANSWERS TO PRACTICE TEST PAPER

TERM – JUNE 2026

PAPER – 20B

SYLLABUS 2022

RISK MANAGEMENT IN BANKING & INSURANCE

makes organization a better risk to insure. Role of insurance in risk management Insurance is a valuable risk-financing tool. Few organizations have the reserves or funds necessary to take on the risk themselves and pay the total costs following a loss. Purchasing insurance, however, is not risk management. A thorough and thoughtful risk management plan is the commitment to prevent harm. Risk management also addresses many risks that are not insurable, including brand integrity, potential loss of tax-exempt status for volunteer groups, public goodwill and continuing donor support.

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.

On presentation of the cheque issued by Mr. Neel, it was dishonoured on 14th May, 2025 on the ground



FINAL EXAMINATION

ANSWERS TO PRACTICE TEST PAPER

TERM – JUNE 2026

PAPER – 20B

SYLLABUS 2022

RISK MANAGEMENT IN BANKING & INSURANCE

"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]

Answer:

(a)

Report on Interest Rate Sensitivity Analysis

Date:

Prepared by: Management Accountant

Executive Summary:

This report provides an analysis of interest rate sensitivity for The Bridge Bank. The assessment includes determining the value of interest rate-sensitive assets, calculating the amount of interest rate-sensitive liabilities, and identifying the gap between these two categories.

(i) Interest Rate-Sensitive Assets:

Assets other than Cash and other assets like Fixed Assets are rate sensitive.

		(₹ Crores)
Total Assets		4,00,000
Less: Cash balance	27,600	
Fixed Assets	12,400	<u>40,000</u>
	Net	<u>3,60,000</u>

(ii) Interest Rate-Sensitive Liabilities:

Liabilities other than Capital, Reserves and Current Accounts are rate sensitive.

		(₹ Crores)
Total Liabilities		4,00,000
Less: Capital	4,000	
Reserves	24,000	
Current Accounts	1,20,000	<u>1,48,000</u>
	Net	<u>2,52,000</u>

(iii) Magnitude and nature of the gap between rate-sensitive assets and liabilities.

	(₹ Crores)
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FINAL EXAMINATION
ANSWERS TO PRACTICE TEST PAPER
PAPER – 20B
RISK MANAGEMENT IN BANKING & INSURANCE

TERM – JUNE 2026
SYLLABUS 2022

Interest Rate-Sensitive Assets	3,60,000
Less: Interest Rate-Sensitive Liabilities	<u>2,52,000</u>
Net	<u>1,08,000</u>

Interest-Sensitive Assets are more than Interest-Sensitive Liabilities by ₹1,08,000 Crores. Hence, there is a positive gap.

In conclusion, this report has provided a comprehensive analysis of the interest rate sensitivity of the Bridge bank, addressing the key points outlined by management.

Overall, this analysis underscores the importance of proactive interest rate risk management to safeguard the financial health and stability of the Bridge bank.

Regards
The Management Accountant

- (b)
- (i) Section 64VB of Insurance Act, 1938 prohibits insurance companies accepting a risk on an insurance policy without receiving the consideration (Premium) in advance. The insurer cannot assume any risk earlier than the date on which the premium has been paid in cash or cheque to the insurer.

Here in the present case, payment by cheque by Mr. Neel is a reciprocal promise to be simultaneously performed. When the insured failed to pay the premium or whether cheque issued by him was returned dishonoured by the Bank, the insurer was not justified in seeking reimbursement of the claim in the absence of any consideration.

In this case Mr. Neel is not liable to take claim from the insurance in respect of damage of his car DL 2CJ 8745 because his cheque gets dishonoured.

As per the law, if the insured cheque gets dishonoured due to insufficient fund in the Account, then court will not consider this case, as it is the negligence of the insured and insured is not liable to claim from insurance company.

But in case, if the cheque gets dishonoured due to any other reason like signature not matching or any spelling mistakes on the cheque, then in these cases, insured is liable to claim from the insurance company.

- (ii) It is a rule specified in Motor Vehicle Act, 1988 that no person should use a motor vehicle in a public place, unless there is an Insurance Policy in force in relation to the use of the vehicle. As per the rules, no vehicle can run on the road without Third Party (TP) Insurance. The main object of the provision is that third



FINAL EXAMINATION

ANSWERS TO PRACTICE TEST PAPER

TERM – JUNE 2026

PAPER – 20B

SYLLABUS 2022

RISK MANAGEMENT IN BANKING & INSURANCE

parties who suffer injuries due to use of the vehicle, may be able to get damages from the owners. The rights of third party to get indemnified can be exercised only against the insurer of the vehicle. The fact that there was a Policy issued in respect of the vehicle involved in the accident is enough for injured third party to maintain a claim against the insurer. The Third Party is not concerned whether the premium was paid or not as long as the policy has been issued.

Where a judgement or an award has been given against an insured person in respect of a third-party liability covered under the insurance policy, then, notwithstanding the rights or the insurer to avoid or cancel the insurance policy, the insurer shall be liable to pay to the person entitled to the benefit of decree (third party), as if the insurer were the judgement debtor, together with any amount payable in respect of costs and any sum payable along with interest.

Hence the person who sustained injuries while walking on the road can file a claim for injuries with the insurer and be indemnified as per provisions of law.