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 : 11***

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

Part–I

1. Deposit Insurance and Credit Guarantee Corporation-DlCGC

Deposit Insurance and Credit Guarantee Corporation (DICGC) is a wholly-owned subsidiary of the Reserve Bank of India (RBI). It provides deposit insurance that works as a protection cover for bank deposit holders when the bank fails to pay its depositors.

The functions of the DICGC are governed by the provisions of 'The Deposit Insurance and Credit Guarantee Corporation Act, l96l' (DICGC Act) and 'The Deposit Insurance and Credit Guarantee Corporation General Regulations, l96l' framed by the Reserve Bank of India in exercise of the powers conferred by sub-section (3) of Section 50 of the said Act.

The authorized capital of the Corporation is ₹ 50 crores, which is fully issued and subscribed by the Reserve Bank of India (RBI). 'The management of the Corporation vests with its Board of Directors, of which a Deputy Governor of the RBI is the Chairman. As per the DICGC Act, the Board shall consist of, besides the Chairman, (*i*) one Officer (normally in the rank of Executive Director) of the RBI, (*ii*) one Officer from the Central Government, (*iii*) five Directors nominated by the Central Government in consultation with the RBI, three of whom are persons having special knowledge of commercial banking, insurance, commerce, industry or finance and two of whom shall be persons having special knowledge of, or experience in cooperative banking or co-operative movement and none of the directors should be an employee of the Central Government, or the RBI or the Corporation or a director or an employee of a banking company or a co-operative bank, or otherwise actively connected with a banking company or a co-operative bank, and (*iv*) four Directors, nominated by the Central Government in consultation with the RBI, having special knowledge or practical experience in respect of accountancy, agriculture and rural economy, banking, co-operation, economics, finance, law or small scale industry or any other matter which may be considered to be useful to the Corporation.

The Head Office of the Corporation is at Mumbai. An Executive Director is in overall charge of its day-to-day operations. It has four Departments, viz. Accounts, Deposit Insurance, Credit Guarantee and Administration, under the supervision of other Senior Officers. The Corporation had four branches, situated at Kolkata, Chennai, Nagpur and New Delhi. Out of these, the branches situated at Kolkata, Chennai and Nagpur were closed with effect from Novernber 30, 2000, since almost all the banks have opted out of the Credit Guarantee Schemes, and most of the pending claims have been settled. While major items of work of these three branches were taken over by the Head Office of the Corporation, some residual items of work are vested with the DICGC Cells specially created in the Rural Planning & Credit Department of the Reserve Bank of India at the respective centres.

The preamble of the Deposit Insurance and Credit Guarantee Corporation Act, l96l states that it is an Act to provide for the establishment of a corporation for the purpose of insurance of deposits and guaranteeing of credit facilities and for other matters connected therewith or incidental thereto.

The Agency insures all kinds of deposit accounts of a bank, such as savings, current, recurring, and fixed deposits up to a limit of ₹ 5 lakh per account holder per bank. In case an individual's deposit amount exceeds ₹ 5 lakh in a single bank, only ₹ 5 lakh, including the principal and interest, will be paid by DICGC if the bank becomes bankrupt.

DICGC protects depositors' money kept in all Commercial and Foreign Banks Located in India; Central, State, and Urban Co-operative Banks; Regional Rural Banks; and Local Banks, provided that the bank has opted for DICGC cover.

The agency's operations are performed as per The Deposit Insurance and Credit Guarantee Corporation Act, l96l and The Deposit Insurance and Credit Guarantee Corporation General Regulations, 1961, framed by RBI under the provisions of sub-section (3) of Section 50 of the act. The act states that the establishment of this corporation is with the aim of insuring deposits' guaranteeing credit facilities, and other related matters.

The following account are not covered under DICGC :

- Deposits of state or Central governments.
- Deposits from Foreign Governments.
- State land development banks depositing with the state co-operative bank.
- Inter-bank deposits.
- Funds that are due on account of India and deposits received outside India.
- Funds exempted by the corporation with the previous approval from RBI.

When banks register with DICGC, the agency grants a printed certificate to the bank that displays information regarding the protection offered by DICGC to depositors of the insured bank.

On the basis of the above facts, answer the following questions :

(*a*) Which banks are insured by the DICGC ? When is DICGC liable to Pay ?

(*b*) Can the DICGC withdraw deposit insurance coverage from any bank ?

(*c*) Does the DICGC insure just the principal on an account or both principal and accrued interest ? Whether the DICGC directly deal with the depositors of failed banks ?

(*d*) Can deposit insurance be increased by depositing funds into several different accounts all at the same bank ? Who pays the cost of deposits insurance ? Whether the bank can deduct the amount of dues payable by the depositor ?

(*5 marks each*)

2. (*a*) Explain the entire process in Cheque Truncation System (CTS).

(*6 marks*)

(*b*) What is a ''Payment System'' under the Payment and Settlement Systems Act, 2007 ? What is the objective of the Payment and Settlement Systems Act, 2007 ?

(*6 marks*)

(*c*) ''Risk-based Internal Audit (RBIA) gives good results to Mitigate the various Risks in the Banking Sector''. Explain.

(*3 marks*)

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

3. (*a*) A Limited Company enjoying CC Sanction Limit of ₹ 14,00,000 from M/s XYZ Banks. The details of Stock and Book Debts Statement as at the end of 31st March. 2024 are as under :

The Margins and other conditions as per Sanction letter issued by the Bank is as follows :

(*a*) On Stocks = 25%

(*b*) On Debtors = 50%

(*c*) Debtors are to be considered by the Bank is up to 90 Days

(*d*) Dead Stocks/Non-moving Stocks Not considered for Finance.

Total Stocks ₹ 14,00,000, Total Creditors ₹ 4,00,000 (of which creditors for expenses is ₹ 1,00,000), Total Debtors ₹ 5,00,000 of which debtors aged more than 90 days is ₹ 1,00,000, Dead Stocks/Non-moving Stocks in Total Stocks is ₹ 1,00,000.

Calculate the Drawing Power for March, 2024.

(*6 marks*)

(*b*) Explain the Key Features and Functions of Small Finance Banks.

(*6 marks*)

(*c*) Frauds Data to be published by the Banks in their Balance Sheet as per the disclosure norms issued by the Regulator. Explain what types of information to be mentioned in the Disclosure on Frauds.

(*3 marks*)

Or (Alternate Question to Q. No. 3)

3A. (*a*) While closing its books of account on March 31st of a financial year, a Non-banking Finance company has its advances classified as follows :

Particulars	**₹ Lakhs**
(*i*) Standard Assets (Other standard loans including Medium Enterprises)	₹ 16,800
(*ii*) Sub-Standard Assets (Secured)	₹ 1,340
(*iii*) Secured Positions of Doubtful Debts :	
(*a*) UP to one year	₹ 320
(*b*) One year to three years	₹ 90
(*c*) More than three years.	₹ 30
(*iv*) Unsecured Portions of Doubtful debts	₹ 97
(*v*) Loss Assets	₹ 48

Calculate the amount of provision which must be made against the advances.

(*6 marks*)

(*b*) RBI defined NBFC as ''When a company's financial assets constitute more than 50 per cent of the total assets and income from financial assets constitute more than 50 per cent of the gross income. A company which fulfils both these criteria will be Registered as NBFC by RBI". Explain how NBFCs differ from Commercial Banks.

(*6 marks*)

(*c*) Explain few examples of Red Flags or Indicators of Potential Money Laundering Activities in Customer Accounts ?

(*3 marks*)

Part–II

4. Re-insurance

The objective of the reinsurance accounting is to record the business, control the funds and maintain proper books and records for the benefit and information of all stakeholders both internal and external. Special nature of Reinsurance Accounting is concerned with technical, financial, legal and underwriting aspects of reinsurance. Premiums, expenses and losses will have effects on both sides of a treaty but these have to be considered on all overall basis of reinsured and reinsurers. It is imperative for reinsurance firm to have proper accounting and financial management so that it can safely settle accounts and create confidence with regulators. The insurance regulators in countries all over the world, including India, have prescribed regulations for insurance and reinsurance accounts and methods of treating certain assets and liabilities. In this connection, IRDAI regulations relating to various items need to be examined.

Reinsurance accounting is comprehensively connected with technical, financial, legal and underwriting aspects of reinsurance. The significance of accounting for reinsurance techniques must be understood and appreciated with reference to the class of business, the type or combination of types of reinsurance methods used and the forms of arrangements as placed directly or through brokers. Legal issues and tax matters are significant to reinsurance accounting. Incredible perils like natural perils such as devastating floods, chilling windstorms and life shattering earthquakes became insurable because of sharing of risk through reinsurance. It is not profit or earnings that can count in these risks since one loss in 25 to 30 years can wipe out the entire profits accumulated over a period of time. It is reinsurance that is so special to motivate insurers to venture into these kinds of businesses.

A long-standing relationship with the reinsurer can be maintained only if proper accounts are rendered by the ceding company. The actual must be reconciled with past trends for renewal of the reinsurance business.

On the basis of the above facts, answer the following questions :

(*a*) Outline the role of Primary Insurer in reinsurance administration.

(*5 marks*)

(*b*) The more important data that should be capable of being made available from a good information system used by the primary insurer should include certain elements. Highlight them.

(*5 marks*)

(*c*) Outline the role of reinsurer in the context of reinsurance administration.

(*5 marks*)

(*d*) Explain how claims are settled under different methods of reinsurance.

(*5 marks*)

5. (*a*) Mr. Hari insured his machinery and stock of goods stored in the factory premises against damage by fire and a protection note was given, subject to the usual conditions of the Company's Policy, one warranty clause being ''Smoking and Cooking be strictly Prohibited in or about the Premises''. The Stocks were damaged by Fire said to be accidental in nature. But the Insurance Company claimed that Smoking a Cigarette or Bidi carelessly by some Employee occasioned the Fire. Is the denial justified ?

(*6 marks*)

(*b*) Explain the Principles of Underwriting Practices that are followed by Insurance Companies in India while developing various Insurance Products.

(*6 marks*)

(*c*) M/s XYZ General Insurance Company Ltd. delivers a fire policy to Mr. Venu on April 15. However, the insured paid the premium on a later date. Unfortunately, there was a Fire in the Premises resulting in loss of Property Insured. The Company denied its liability on the basis of the fact that the premium was overdue at the time of loss. Is it correct ? Discuss.

(*3 marks*)

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

6. (*a*) Is there any difference between Individual Insurance Policies and Group Insurance Policies ? Explain.

(*6 marks*)

(*b*) What is Ayushman Bharat Health Insurance ? Explain the features and benefits of the Scheme.

(*6 marks*)

(*c*) Outline the functions of IRDAI, which highlights its development role ?

(*3 marks*)

OR (Alternate question to Q. No. 6)

6A. (*a*) The cargo on a ship was insured against loss on account of sea water. Some rats in the ship caused a hole in the bottom of the ship resulting in the entry of sea water into the ship resulting in the loss of the cargo. The insurance company refuses to pay the money on the ground that the loss was caused on account of rats, which was not an insured peril. Is the refusal by the Insurance Company Tenable ? Discuss.

(*4 marks*)

(*b*) Mr. Sharma insured his goods in a warehouse against fire with XYZ Insurance Company. The goods were burnt and Mr. Sharma recovered the full value of ₹ 10,00,000 from the insurance company. Subsequently Mr. Sharma also sued the warehouse. And recovered a sum of ₹ 10,00,000. Can Mr. Sharma retain this money ?

(*4 marks*)

(*c*) Mr. Prakash effected insurance on his goods against loss or damage by fire. Mr. Prakash and his wife quarrelled and the excited wife set fire and destroyed the goods. Can Mr. Prakash recover under the policy ? If yes, can the insurer sue the wife under the doctrine of subrogation ?

(*4 marks*)

(*d*) Mr. Aakash contracted to build a ship for Mr. Bunny for ₹ 5,00,000. All the materials were to be supplied by Mr. Bunny. Can Mr. Aakash get all the materials insured for the period of construction ?

(*3 marks*)

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