

# Banking and Insurance—Law and Practice

# 336

Roll No.....

Time allowed : 3 hours

Maximum marks : 100

Total number of questions : 8

Total number of printed pages : 5

## PART – A

(Answer Question No.1 which is compulsory and any two of the rest from this part.)

1. (a) Nav Chetan bank has given a hypothecation advance against inventory to Rajani Enterprises. In a periodical checking, the stocks are found short by the bank. The bank allows more finance to make good the shortage. Is the bank's action correct? Give reasons for your answer. (4 marks)
- (b) Bhumika received a cheque of Rs.51,000 as a gift from Vivek. Later on, the cheque was dishonoured. State whether Bhumika can bring an action against Vivek for dishonour of the cheque. (4 marks)
- (c) State, with reasons in brief, whether the following statements are correct or incorrect :  
(i) High interest rates in the economy for a long time may hit the growth scenario.  
(ii) Liquidity is the cornerstone of banking operations.  
(iii) Under irrevocable letter of credit, interest of confirming bank is not protected.  
(iv) Credit Information Bureau of India Ltd. (CIBIL) helps to facilitate avoidance of adverse selection of borrowers. (1 mark each)
- (d) Choose the most appropriate answer from the given options in respect of the following :  
(i) As per section 17 of the Indian Stamp Act, 1899, instruments executed in India are required to be stamped –  
(a) Before execution  
(b) After execution  
(c) Before or at the time of execution  
(d) All of the above.  
(ii) Which of the following is called 'core capital' of a bank –  
(a) Tier-I capital  
(b) Tier-II capital  
(c) Hybrid capital  
(d) Subordinated debts.

- (iii) If a cheque is dishonoured for insufficiency of funds in the account, the drawer of the cheque is liable for –
- (a) Imprisonment
  - (b) Fine
  - (c) Both (a) and (b)
  - (d) None of the above.
- (iv) Which of the following mode is useful for bulk transfer of funds from one account to many accounts and *vice-versa* –
- (e) EFT
  - (f) RTGS
  - (g) ECS
  - (h) None of the above.

(1 mark each)

- (e) Re-write the following sentences after filling-in the blank spaces with appropriate word(s)/figure(s) :

- (i) \_\_\_\_\_ per cent of advances of a bank should go to the designated priority sector, *viz.*, agriculture, small industries and small units.
- (ii) Rural and semi-urban branches of banks are to maintain a credit-deposit ratio of at least \_\_\_\_\_ per cent of their deposits.
- (iii) \_\_\_\_\_ per cent of the advances to priority sector should go to the weaker sections of the community.
- (iv) A cheque has \_\_\_\_\_ parties.

(1 mark each)

2. Attempt **any three** of the following :

- (i) List down some of the strengths of the Indian banking system.
- (ii) How do banks minimise the risk involved in lending funds ?
- (iii) What is 'cheque truncation' ? What type of cheques can be presented in the cheque truncation system ?
- (iv) What are the factors affecting interest rates in the market ? Discuss them in brief.

(5 marks each)

3. Attempt **any three** of the following :

- (i) Explain the significance of endorsements.
- (ii) "The bank is not required to give prior notice to the borrower before exercising its right of lien." Examine the statement.

- (iii) How does the relationship of banker and customer terminate ? In what way it terminates by process of law ?
- (iv) What do you mean by 'intangible securities' ? What precautions must be taken while sanctioning unsecured advances.

(5 marks each)

4. Write short notes on **any five** of the following :

- (i) Sources of income of banks
- (ii) Inter-bank call market
- (iii) Elements of prudential norms
- (iv) Off-shore banking centres
- (v) Gold Bond Scheme
- (vi) Specialised development financing institutions
- (vii) Bankers' books.

(3 marks each)

**P A R T – B**

*(Answer Question No.5 which is compulsory and any two of the rest from this part.)*

5. (a) There are 1,000 persons who are all aged 50 years and are healthy. It is expected that of these, 10 persons may die during the year. If the economic value of the loss suffered by the family of each dying person is taken to be Rs.20,000, explain how these 1,000 persons may share the risks in cases of 10 persons through pooling of funds.

(4 marks)

- (b) On what basis the insurable interest arise under the following circumstances :

- (i) Owner of a building and bank as a mortgagee.
- (ii) Warehouse and keeper of goods.
- (iii) Renting the building by landlord to a tenant.
- (iv) Employer to pay compensation to employees for accidents.

(1 mark each)

- (c) Comment on the following :

- (i) Only pure risks are insurable.
- (ii) Insurance provides funds for investments.
- (iii) 'Good faith' in insurance contract means absence of fraud or deceit.

(1 mark each)

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- (d) Choose the most appropriate answer from the given options in respect of the following :
- (i) Which division of the life policy document lays down the mutual obligations of the two parties –
    - (a) Preamble
    - (b) Operative clause
    - (c) Proviso
    - (d) Schedule.
  - (ii) Transfer of rights and remedies of the insured to the insurer who has indemnified the insured in respect of the loss is known as –
    - (a) Assignment
    - (b) Subrogation
    - (c) Contribution
    - (d) Indemnification.
  - (iii) In life and health insurance companies, claim representatives are typically called –
    - (a) Claims adjusters
    - (b) Appraisers
    - (c) Claims examiners
    - (d) Investigators.

(1 mark each)

- (e) State, with reasons in brief, whether the following statements are correct or incorrect :
- (i) Life insurance only requires that insurable interest should exist at the time of entering the contract.
  - (ii) A joint life declaration is not necessary to create a joint interest in the policy.
  - (iii) The object of insurance is to provide indemnity for such losses as are caused by insured perils.
  - (iv) Fire insurance policy issued under Indian tariff covers risk of fire peril, but does not cover other risks.
  - (v) If the insured property happens to be insured also under marine policy, the fire policy will pay any losses in excess of the amount recoverable under marine policy.
  - (vi) Reinsurance is the insurance of the risk assumed by the insurer.

(1 mark each)

6. Attempt **any three** of the following :

- (i) "Uncertainty is the very core of the concept of risk." Explain the statement.  
(5 marks)
- (ii) Describe the role of the 'Insurance Ombudsman' in resolving the complaints relating to settlement of insurance claims.  
(5 marks)
- (iii) What are the provisions relating to cancellation of registration of an insured bank under the Deposit Insurance and Credit Guarantee Corporation Act, 1961 ?  
(5 marks)
- (iv) What are the prospects of 'annuity business' being done by life insurers ?  
(5 marks)

7. Attempt **any three** of the following :

- (i) State the legal position about children's assurances. Whether the child has insurable interest in the life of parents ?
- (ii) What factors are considered in deciding the compensation by the Motor Accident Claims Tribunal (MACT) ?
- (iii) What are the major advantages of retention technique in a risk management programme ?
- (iv) What are the options to the insured to decide on the values to be insured ?  
(5 marks each)

8. Attempt **any five** of the following :

- (i) Write a note on 'underwriting agents for insurance sector'.
- (ii) Write a note on 'credit derivatives'.
- (iii) What is the 'business of insurance' done by insurance companies ?
- (iv) What is 'free look period' in life insurance contracts ?
- (v) State the concept of 'human life value'.
- (vi) What is 'sue and labour clause' in a marine insurance policy ?  
(3 marks each)

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