K.J. SOMAIYA INSTITUTE OF MANAGEMENT STUDIES & RESEARCH

PGDM (FS) – 2016 – 18 BATCH

Financial Services

Max Marks : 50 Time : 3 Hours Date : 02/04/2018

Note :

1) Attempt any 5 questions

2) Each Question carries 10 marks

3) Use of Scientific calculator is allowed

Q1. Case Study

Our banking regulatory system is operating with Eyes Wide Shut. That India was able to avoid the Asian financial crisis and the global economic crisis is often cited as a sign that our financial system is solid. But the slow spreading malaise of non-performing loans (NPL) and scams if not dealt with could prove damaging to India's ambitions to be a global economic power. So far, we have dealt with our banking crisis with palliatives: the weak Indradhanush scheme, a non-functional Banks Board Bureau, a promising but complicated to implement Insolvency and Bankruptcy Code, and a missed reform opportunity with the bank recapitalisation scheme. Now, the blame game between RBI and the finance ministry, after the recent banking scam, is a signal that the financial mess is bigger and that the regulatory system itself needs a major overhaul. The irony is that the hit on the taxpayer is massive even without a full-blown crisis. When the $30-billion recapitalisation plan was announced, it was clear that it was insufficient to address the NPL problem that exceeded $150 billion. But it was hoped that if the bulk of the funds would be used to recapitalise the better performing banks first, and these banks could also raise private financing, the credit cycle could be quickly revived. Instead, the money was dribbled out to all the PSU banks with a greater share going to the weaker banks. Now, with the revelation of scams, even more capital will be needed, and the ability to raise funds from the equity markets is dwindling Stock Quote as PSU banks shares take a hit. Moreover, with potentially huge criminal liabilities, banks will become even more risk averse and slow down lending further, just as the economy shows signs of a rebound. The RBI blames the finance ministry for giving it too little powers over the regulation of PSU banks — but it has taken its eyes off the ball. Instead of public warfare, disentangling the nested and overlapping relationships between RBI and the finance ministry is needed to modernise the financial regulatory system. RBI officials continue to sit on the boards of PSU banks that makes it complicit in the internal decision-making. Its post of Deputy Governor for Regulation has inexplicably been vacant for a long time. It needs to step up to its responsibility. The RBI has had its hands full dealing with demonetisation — which it also managed poorly. The regulator has been much too focused on its independence in running monetary policy and its role as inflation fighter, at the expense of the real economy. It has also resisted giving up its role as the public debt manager that can create huge conflict of interest, to the functioning of independent monetary policy. The debt management function should be either in the finance ministry or under an independent public debt management agency. But such a move would also need to be accompanied by eliminating the Statutory Liquidity

Ratio (SLR) for the banks and by reducing public ownership in the banking system. For now, it would be better to establish an independent department in the finance ministry to handle both internal and external debt reporting directly to the finance minister. The recapitalisation plan should have led to a reduction in the number of PSU banks — either through privatisation or through merger. But unfortunately this did not happen. The clamour for privatisation has increased after the latest scam in Punjab National Bank and at Bank of Baroda. The argument made is that India should not privatise PSU banks because they provide a social function: lend to rural sector and provide banking in remote areas. It is also argued that banking crises occur even in countries that do not have state-owned banks. But when a crisis is systemic, and the financial system freezes, the bailout hits the taxpayer whether the problem is caused by public or private banks. But these are still not good arguments for keeping 21 PSU banks — which are hard to regulate, lack adequate managerial competency and are gamed by cronyism. It may be better to have at best two PSU banks for meeting 'so-called' social functions and free up the rest to do professional commercial banking. In any case, the bulk of the NPL problem is due to cronyism towards well-connected 'wilful defaulters'. India needs a banking regulator that can, like 'the proverbial Owl', sleep with Eyes Wide Open, and serious reforms in the PSU banks if it wants to become a$5-trillion economy by 2025.

a.From the above case identify and explain in details the problems faced by a commercial banks in India

b.Explain how this risks can be curtailed by RBI .

Q2. Calculate EMI of Rs 200000 for 2 years at 12% interest

Q3. What is Insurance, Explain History in brief of Insurance

Q4. Explain Demand and Supply factors in Real Estate sector in India

Q5. What are Derivatives? Explain Futures, Forwards and Options

Q6. Explain Primary, Secondary and Tertiary sectors in Indian Economy.

Q7. Short Note (Any two for 5 Marks each)

a. Liquid Funds

b. MIBOR

c. CMBS

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