

**R. B. S. B. ( R. O.— DEPR )****Panel Year 2011**

[TIME : 2.30 P.M. TO 5.30 P.M.]

(MAXIMUM MARKS—100)

**PAPER III****ENGLISH***N.B.*—(1) All questions are *compulsory*.

(2) Figures to the right indicate marks.

(3) Each question must be started on a fresh page.

(4) All parts of a question must be answered together, without other answers intervening.

(5) Marks will be deducted if an answer far exceeds or falls short of the set limit, or is irrelevant, or if the handwriting is illegible.

(6) Answers must be written in *English*.**Marks**

1. Write an essay of about 500 words on any *one* of the following topics. 40  
Complete information on the subject will be rewarded. At the end of the essay, state the number of words used:—
- (a) Relevance of Lokpal Bill in democratic set-up of India  
(b) The role of RTI in satisfying the queries of people  
(c) The role of RBI to improve the economy of India  
(d) Your response to the demand of Telangana as a separate state  
(e) Scope of research in banking sector

2. (a) Make a precis of the following passage in your own words, reducing it to about 250 words and give it a suitable title :— 24

The June 2011 Financial Stability Report (FSR) of the Reserve Bank of India reflects great perspicacity. The report underscores the RBI's analytical skills as it assesses sources of systemic risk. The Report is not something to be glanced over and consigned to the archives. It is truly reflective of RBI's concern on various issues, and outlines certain policy pointers in the way ward. The report recognizes that a showdown in growth momentum is inevitable as inflation looms large, with the possibility of further upward pressure in the ensuing months. This could affect the quality of asset of the financial sector.

The present level of current account deficit is not really a concern, but as a demand for funds in the industrial countries gathers momentum, Indian financial institutions could face increased funding costs. The enhanced recourse to External Commercial Borrowings (ECB) is increasing currency mismatches in Indian corporate balance-sheets. The increase in non-official sector's net liability position reflects the risks that could arise from depreciation of the rupee.

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Foreign Currency Convertible Bonds (FCCBs) maturing during the next 12-24 months are large, which portends that a sizeable proportion may not be converted into equity and any refinancing would necessarily be at high interest rates.

While the banking sector, by and large, reflects good health, the robust credit growth points to future vulnerabilities. A deposit growth has been less than credit expansion. There would be increasing maturity mismatches affecting profitability. Periods of high credit expansion give rise to credit booms which are precursors to credit busts and financial crisis. Liyaquat Ahmad, the author of *Lords of Finance* said that India will be faced with a financial crisis in the future though he could not say precisely when. The Indian authorities have been forewarned and should take heed well before a financial crisis hit India. While Indian banks are well capitalized and are above the Basel II norm of 12 percent, increased provisioning for pension liabilities and increased non-performing assets (NPAs) could erode the capital of banks. The Report further says that the increase in savings bank deposit rate could affect profitability.

However, in a dynamic context, the possible deregulation of savings bank deposit rates could increase low-cost deposits rather than longer term high—cost deposits and thereby contribute to enhanced profitability. Amendments to the banking sector legislation are on the anvil and the Financial Sector Legislative Reform Commission (FSLRC) has a mandate to recommend a revamp of financial sector laws.

The FSLRC would hopefully make its recommendations in a non-partisan manner and not be caught in the inevitable conflicts of interest between institutions. The FSLRC has constituted eight sub-committees, each of which would look into specific areas. It is unfortunate that despite the Indian deposit insurance system being the second oldest in the world, its development has been stunted. The FSR does well to focus attention on the deposit insurance system. The present theology is that no bank should be allowed to fail and hence the deposit insurance system is reduced to a mere pay-out agency.

A major problem relates to the system of a uniform premium. It is necessary to move over to a system of differential premia. A differential premia system would not lead to a collapse of the weaker banks; rather it would be an incentive for banks to take early action to rectify weaknesses. There is a need for a broader mandate for the deposit insurance agency, so that it can be proactively involved in regulation / supervision of bank deposits, as in the case of the US Federal Deposit Insurance Corporation. The present banking regulation / supervision system within the RBI would need to be restructured to ensure that the deposit insurance agency has a major role in safeguarding the depositors' interests, rather than being a poor relative in the RBI fold.

The FSLRC should give close attention to altering the present legislative framework under which the RBI banking regulatory wing is treated as the top gun and the deposit insurance agency as a mere vassal. Unless the RBI is proactive in the restructuring, the FSLRC may even need to opt for a total separation of the deposit insurance system from the RBI. There is an urgent need for an attitudinal change in the RBI on this issue. The RBI should be in the vanguard of the move to empower the deposit insurance agency with regulatory powers relating to bank deposits.

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| (b) (i) Answer two of the following questions on the passage briefly, in your own words :—   | 10           |
| (1) What major concerns does the Financial Stability Report identify in the financial sector ?   |              |
| (2) Why does banking sector, despite being in good health, seem to face future financial crisis ?  |              |
| (3) What is the problem of the Indian deposit insurance system and how can it be rectified ?   |              |
| (4) How is FSLRC expected to resolve the financial crisis of banking sector in collaboration with RBI ?  |              |
| (ii) Explain briefly in your own words the contextual meaning and implication of <i>three</i> of the following terms in the passage :—   | 6            |
| (1) perspicacity   |              |
| (2) to glance over   |              |
| (3) by and large   |              |
| (4) non-partisan manner  |              |
| (5) to take heed   |              |
| (6) to rectify.  |              |
| 3. Answer any <i>one</i> of the following :—   | 20           |
| (a) A student, who has been selected for MS programme abroad, writes a letter enquiring about the terms and conditions of the bank and documents required for the purpose of study loan. As the Manager, State Bank of India, draft a reply intimating him the necessary formalities, and the documents to be submitted to expedite the bank proceedings for study loan.   |              |
| (b) On behalf of the Election Commission, write a letter to the RBI inquiring into the conduct of XYZ banks which made drafts of Rs. 25 lakhs for a political party during election, allegedly violating its guidelines on election expenditure.   |              |
| (c) It has been reported to the RBI that due to inflation in the interest rates, there has been a steep fall of 25 percent in the housing loan customers as compared to the last year. Looking to this emergency, the RBI has appointed a high profile committee to take stock of the situations and to submit its recommendations. As the chairman of committee, submit your report to the RBI within two months. |              |
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