**Commercial Banking System & Role of RBI**

**December 2023 Examination**

**1) Independence of Central Bank is very crucial for impartial functioning and fair play in the economy. Any closeness of Central Bank to Ministry of Finance will not be fair and it will be viewed as baby of the government and will be looked with suspicion. Do you agree or disagree with the above statement and what is your stand?**

**Ans:**

**Introduction**

A central bank's Independence broadly appeared as a fundamental element for ensuring impartial economic functioning and truthful play inside an economic system. Crucial financial institution independence refers to the diploma of autonomy a principal bank possesses in its choice-making and operational sports, unfastened from undue influence from the authorities or different external entities. This autonomy is crucial in maintaining economic stability, controlling inflation, managing monetary policy, and selling long-term sustainable growth. The connection between the significant bank and the Ministry of Finance

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**2) RBI has different parameters for evaluating the performance of bank. These criteria emanates from different roles played by commercial banks. Explain the different parameters on which banks are rated on scale of 1 to 5. Here 5 is rated as unsatisfactory/poorly performing bank, while 1 rating is deemed as a well run bank.**

**Ans :**

**Introduction**

Comparing a bank's performance is essential for regulatory bodies, such as the Reserve Financial Institution of India (RBI), to ensure balance, growth, and adherence to regulatory norms within the banking sector. These evaluations are essential for retaining a sturdy financial machine that fosters economic development. The RBI, the apex monetary authority in India, has devised a complete framework related to various parameters to evaluate the performance of banks. This evaluation proposes to check banks' performance, economic health, risk control, and essential effectiveness. The rating scale tiers from 1 to five, where 5 signifies an unsatisfactory or poorly appearing bank, and 1 represents a nicely run, efficiently

**3) Today most of the banks are focusing on recovery of Non-Performing Assets (NPAs). A large chunk of bank’s money is locked in these assets. Major defaulters are intentional who plan to defraud the bank and run away. The other types of defaulters are those, who because of circumstances or due to some inability are unable to repay the bank loans. Banks have to make huge provisions for NPAs, which reduce the profitability of the banks. However, new legislations have been passed expediting recovery process but more needs to be done. In light of above statements:**

**a) Write the major steps taken for recovery since last 10 years**

**Ans:**

**Introduction:**

The issue of Non-performing assets (NPAs) has been a significant concern for the Indian banking quarter, impacting banks' financial fitness and profitability. NPAs are loans or advances that have stopped generating income for the lender because of default repayment. Over the last decade, India's banking area has witnessed a growing emphasis on NPA recovery because of its increasing magnitude of NPAs and adverse effects on the economy.

**b) How do you differentiate between intentional defaulters and ability defaulters, and the view of RBI on these two category of defaulters?**

**Ans:**

**Introduction**

Non-performing assets (NPAs) have been complex for banks and financial institutions worldwide. In India, this issue has gained significant attention due to its impact on the stability and profitability of the banking area. NPAs check with loans or advances that have stopped generating income for a bank because of non-compensation or default by borrowers. Inside the realm of NPAs, there are distinct classes of defaulters: intentional defaulters and