**Commercial Banking System & Role of RBI**

**April 2024 Examination**

**1. Banking plays an important role in growth of trade and commerce in the economy. Bank is also known as Financial Intermediary, explain this role of bank. The success of any bank depends on customer service, what types of products and services will you design to attract young millennial customers. (10 marks)**

**Ans 1.**

**Introduction**

Banking institutions have long been pivotal in facilitating economic growth, acting as the lifeblood that fuels trade and commerce. At their core, banks serve as financial intermediaries, bridging the gap between savers and borrowers, thus enabling the efficient allocation of resources across the economy. This intermediary role is not merely about deposit taking and lending but extends to a myriad of financial services that cater to the diverse needs of individuals, businesses, and governments. In an era characterized by rapid technological advancements and shifting consumer preferences, banks are increasingly

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**2. Banks today are focusing more on non-fund based loans than traditional fund based loans. What are the reasons for such steps by banks? Explain three fund based and three non-fund based loans. (10 marks)**

**Ans 2.**

**Introduction**

The commercial banking landscape has undergone significant evolution, particularly in their lending practices. In recent years, there has been a noticeable shift from traditional fund-based loans to non-fund based loans. This transition reflects the changing dynamics of financial needs, risk management strategies, and profitability models within the banking sector. Fund-based loans, where banks disburse funds and earn interest, have been the cornerstone of banking operations. However, the increasing preference for non-fund based facilities, where banks guarantee financial support without immediate fund disbursement, marks a strategic shift. This approach not only caters to the diversified needs of modern

**3. Banking is risky business and it needs different skill sets to negotiate the business, Banks are exposed to different types of risks due to diverse business they handle, Though 100% risk cannot be eliminated but definitely by prudent management, experience and skills risks can be reduced and controlled :**

**a. Explain reputation risk and credit risk and ways to reduce these risks. (5 marks)**

**Ans 3a.**

**Introduction**

Banking, inherently fraught with various risks, demands a sophisticated blend of management, experience, and skill to navigate its complexities successfully. Among the plethora of risks faced by banks, reputation risk and credit risk stand out for their potential to significantly impact the financial health and standing of a banking institution. While it is impossible to eliminate these risks entirely, through prudent risk management strategies, their

**b. How banks handle interest rate risk and market risk? (5 marks)**

**Ans 3b.**

**Introduction**

Interest rate risk and market risk are significant concerns for banks, given their potential to erode the value of assets and impact profitability. Interest rate risk arises from fluctuations in interest rates affecting the bank's loan and investment portfolios, while market risk involves losses due to changes in market variables, such as equity prices, interest rates, and foreign exchange rates. Effectively managing these risks is crucial for maintaining financial stability