

FA1108, Principles of Financial Risk Management, Dec 2022

BBA Banking and Fintech 3rd Sem 2021-24 batch

Full Mark- 30

Time Allowed- 2 Hour

Roll Number:

Date:

Request you to please limit your answers to bullet points and summarized statements.

Each question carries five marks

Table 1 for Question-1(a) and 1(b)

Total Portfolio Rs. Crore		3000
Probability of default	Current	
	1-30 Days past due	0.5%
	30-90 Days past due	1.7%
	90-180 Days past due	1.1%
	>181 Days past due	0.8%
Loss given default	Current	0.15%
	1-30 Days past due	8%
	30-90 Days past due	22%
	90-180 Days past due	35%
	>181 Days past due	79%

Q1(a): If the business plan were to accept loss of 1% of AUM with a maximum variance of 50%, do you think that the current performance is in line with expectation or better or worse. Please explain. (LO 2)

Q1(b): Recent changes in the repossession law will triple recoveries in 181 DPD + portfolio, however, will add 5 Crore incremental compliance cost for the company, that must be added to the overall loss. Do you think that the current performance will now be in line with expectation or better or worse? Please explain. (LO 2)

Table 2: for Question No. 2

Annual premium is arrived at by dividing total premium by the period of insurance e.g., if total premium is 30000 and period of insurance is 10 years, annual premium will be 3000	Mean probability of death between age 20-40	2.20%
	standard deviation	0.30%
	Age of the insured person	20
	Term of insurance	20
	Fixed cost as a % of claim	35%
	Minimum Profit as a % of claims	25%

Q2: Find the minimum annual premium that the insurance company must charge for an insured value of Rs. 1 Crore (with a 99.87% confidence)? (LO 3)

Q3: What is the role of collateral assessment in the financial risk management. How is it assessed, please explain with a simple example (LO 1)

Q4: A loan company does not accept deposits, however has an attack on its servers and all its data is encrypted by the hackers and who are now demanding ransom to decrypt the same? What is the risk that a loan customer faces from such cyber-attack on the loan company? (LO 1)

Q5: How does insurance helps you manage financial risk, please explain with two simple examples? (LO 1)

Q6: What is meant by over-leveraging? How does it impact credit losses, please explain with a simple example? (LO2)