



Daily Subject wise Quiz Day 59 Economy IX (Online Prelims Test)

1) Consider the following statements with respect to Narasimhan Committee

1. It established 4 tier hierarchy for banking structure with large banks at the top and at bottom rural banks engaged in agricultural activities.
2. It recommended to establish the National Housing Bank in 1995.

Which of the above statements is/are correct?

- a. 1 only
- b. 2 only
- c. Both 1 and 2
- d. Neither 1 nor 2

Answer : a

Narasimhan Committee



- The Narasimham Committee was established under former RBI Governor M. Narasimham in August 1991 to look into all aspects of the financial system in India.
- Recommendations of Narasimhan Committee
 1. Establishment of 4 tier hierarchy for banking structure with 3 to 4 large banks (including SBI) at the top and at bottom rural banks engaged in agricultural activities.
 2. The supervisory functions over banks and financial institutions can be assigned to a quasi-autonomous body sponsored by RBI.
 3. Proper classification of assets and full disclosure of accounts of banks and financial institutions.
 4. Delegation of direct lending activity of IDBI to a separate corporate body.
- The National Housing Bank Act of 1987 was established on July 9, 1988.

2) Consider the following statements with respect to Reserve Bank of India

1. It has a fundamental commitment to maintaining the nation's monetary and financial stability.
2. Management of foreign currency reserves of the country and its current and capital account is one of the function of RBI.

Which of the following statements is/are correct?

- a. 1 only
- b. 2 only
- c. Both 1 and 2
- d. Neither 1 nor 2

Answer : c

Reserve Bank of India

- The Reserve Bank Of India is the apex banking institution.
- It has a basic function “to regulate the issue of Bank Notes and keeping of reserves with a view to securing monetary stability in India and generally to operate the currency and credit system of the country to its advantage.”
- It commenced operations on April 1, 1935, is at the center of India’s financial system.
- It has a fundamental commitment to maintaining the nation’s monetary and financial stability.
- It started as a private share-holders bank – but was nationalized in 1949, under the Reserve Bank (Transfer of Public Ownership) Act, 1948.
- It is a banker to the Central Government, State Governments, and Banks.

3) Consider the following statements with respect to Non-Banking Financial Company

1. NBFCs do not form part of the payment and settlement system and cannot issue cheques drawn on themselves.
2. These type of companies provides banking services without holding any banking license.

Which of the above statements is/are incorrect?

- a. 1 only
- b. 2 only
- c. Both 1 and 2
- d. Neither 1 nor 2

Answer : d



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Non-Banking Financial Company

- A Non-Banking Financial Company (NBFC) is a company registered under the Companies Act, 1956 .
- NBFC is defined as a company registered under the Companies Act, 2013 and also under the RBI act 1934 under section 45-IA.
- These type of companies provides banking services without holding any banking license.
- NBFCs lend and make investments and hence their activities are akin to that of banks; however, there are a few differences as given below:

1. NBFC cannot accept demand deposits;
2. NBFCs do not form part of the payment and settlement system and cannot issue cheques drawn on themselves;
3. The deposit insurance facility of Deposit Insurance and Credit Guarantee Corporation is not available to depositors of NBFCs, unlike in the case of banks.

4) Consider the following statements with respect to Net Stable Funds Rate (NSFR)

1. It requires banks to maintain a stable funding profile in relation to their off-balance-sheet assets and activities.
2. The minimum NSFR requirement is 20%. NSFR measures short-term (30 days) resilience.

Which of the above statements is/are incorrect?

- a. 1 only
- b. 2 only
- c. Both 1 and 2

d. Neither 1 nor 2

Answer : b

Net Stable Funds Rate (NSFR)

- The Net Stable Funds Rate (NSFR) requires banks to maintain a stable funding profile in relation to their off-balance-sheet assets and activities.
- NSFR requires banks to fund their activities with stable sources of finance (reliable over the one-year horizon).
- The minimum NSFR requirement is 100%. Therefore, LCR measures short-term (30 days) resilience, and NSFR measures medium-term (1 year) resilience.

5) Which of the following statements is/are correct about Counter Cyclical Capital Buffer (CCCB)

1. Countercyclical capital buffer (CCCB) is calculated as a fixed percentage of a bank's risk-weighted loan book.
2. RBI has made it mandatory to banks to maintain CCCB keeping the ratio at zero percent.

Select the correct answers using the codes given below

- a. 1 only
- b. 2 only
- c. Both 1 and 2
- d. Neither 1 nor 2

Answer : a

Countercyclical capital buffer (CCCB)

- Following Basel-III norms, central banks specify certain capital adequacy norms for banks in a country.
- The CCCB is a part of such norms and is calculated as a fixed percentage of a bank's risk-weighted loan book.
- The key respect in which the CCCB differs from other forms of capital adequacy is that it works to help a bank counteract the effect of a downturn or distressed economic conditions.
- With the CCCB, banks are required to set aside a higher portion of their capital during good times when loans are growing rapidly, so that the capital can be released and used during bad times, when there's distress in the economy.
- Although the RBI had proposed the CCCB for Indian banks in 2015 as part of its Basel-III requirements, it hasn't actually required the CCCB to be maintained, keeping the ratio at zero percent ever since.