**Commercial Banking System & Role of RBI**

**NMIMS Solved Assignments for December 2024**

**Q1. Monetary Policy is the macroeconomic tool used with the objective to control inflation, management of employment, consumption, growth and liquidity. Monetary policy can be expansionary or contractionary. In light of above statement enumerate the method/s to achieve the above objectives.**

**Answer:**

**Introduction:**

Monetary policy is a crucial component of a country's economic framework, wielding significant influence over various macroeconomic objectives, including inflation control, employment management, consumption stimulation, economic growth, and liquidity regulation. It is primarily implemented by a country's central bank, which adjusts monetary conditions to create a stable economic environment. Monetary policy can be classified into two main types: expansionary, aimed at stimulating economic activity through lower interest rates and increased money supply, and contractionary, designed to curb inflation by reducing money supply and raising interest rates. The effectiveness of these policies hinges on several methods employed by the central bank, such as open market operations, reserve requirements, and discount rates. Understanding these methods is essential for evaluating the central bank's role in maintaining economic stability.

**This is partially solved sample answer**

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**Q2. Management of stressed assets/NPA requires soft skills and hard decision taking ability. Illustrate the factors responsible for NPA. What are the solutions to resolve NPA problems?**

**Answer:**

**Introduction:**

The management of stressed assets and Non-Performing Assets (NPAs) is a critical challenge for financial institutions, impacting their profitability and stability. NPAs arise when borrowers fail to meet their repayment obligations, leading to significant financial losses for banks. Factors contributing to NPAs include economic downturns, inadequate risk assessment, poor credit management, industry-specific challenges, and borrower mismanagement. Furthermore, external factors such as changes in regulations and market dynamics can exacerbate the NPA problem. Addressing NPAs requires a balanced approach that combines soft skills, such as effective communication and negotiation, with the hard decision-making abilities necessary for restructuring or recovering loans. Implementing solutions like proactive monitoring, asset resolution strategies, and enhancing borrower support mechanisms is essential to mitigate the NPA crisis.

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**Q3. Contrary to the general perception that growth of banking is faster during peaceful times. Covid 19 was one such incident which propelled the banks to grow in diverse directions, leading to “Butterfly Effect”. Innovation took over invention, out of box ideas were implemented by banks resulting in rapid growth.**

**a) What were the advantages of Digital Banking?**

**Answer:**

**Introduction:**

The COVID-19 pandemic significantly transformed the banking landscape, accelerating the shift toward digital banking. As traditional banking faced unprecedented challenges, financial institutions embraced innovative technologies and out-of-the-box strategies to meet customer needs. This transition not only facilitated seamless banking experiences but also enhanced operational efficiency. The advantages of digital banking emerged as pivotal factors driving growth and resilience in the sector, reshaping how banks operate and serve their clients in a rapidly evolving environment.

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**b) Innovation creates business value. Value can be in terms of improvement in existing products, launching new products and services or cost reduction. Explain the issues in Commercial Banking.**

**Answer:**

**Introduction:**

The commercial banking sector faces several challenges that impact its ability to innovate and create business value. Issues such as stringent regulatory compliance, cybersecurity threats, and the need for digital transformation hinder growth. Additionally, banks must navigate changing customer expectations and increasing competition from fintech companies. These challenges necessitate a strategic focus on innovation to enhance existing services, launch new offerings, and optimize operational efficiency, ultimately driving value in a dynamic financial landscape.

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